# TCFD Report 2022

## 1. Introduction

Increasing warming levels the world has witnessed are expected to exacerbate further in the coming years and decades. The landmark Climate Change 2023 Synthesis Report by the Intergovernmental Panel on Climate Change (IPCC) shows that global temperatures have increased 1.1°C above pre-industrial levels in 2011-2020.[1] Moreover, a recent warning from the World Meteorological Organization (WMO) states a 66% likelihood for the annual average near-surface global temperature to be more than 1.5°C above pre-industrial levels for at least one year in the next five years.[2]

Climate actions are accelerating globally bringing hopes of keeping the Paris Agreement goals within reach. The latest United Nations Climate Change Conference (COP28) is said to mark the "beginning of the end" of the fossil fuel area with nations agreed on transitioning away from fossil fuels in energy systems, as well as tripling renewable energy capacity and doubling energy efficiency improvements by 2030. Stakeholders beyond national governments, including businesses, are increasingly being recognised as important drivers of raising ambition and delivering action on decarbonisation.

In 2021, China announced an update to its Nationally Determined Contributions (NDC) goals to have CO2 emissions peak before 2030 and to achieve carbon neutrality by 2060 (often referred to as the “30-60” goals), in line with the targets and principals of the Paris Agreement. Commitments have been made to lowering at least 65% of CO2 emissions per unit of GDP from the 2005 level, increasing the share of non-fossil fuel in primary energy consumption to at least 25%, as well as expanding the capacity for total installed solar and wind power to reach at least 1.2 billion kilowatts by 2030.[3] Additionally, to achieve climate resiliency, China has issued the National Strategy for Climate Change Adaptation 2035 which outlines climate change adaptation targets for specific key sectors and regions based on their climate risk materiality.[4]

Noting the global and national context, Nexus Point (the “Firm”) recognizes the significant risks that climate change poses to the economy, businesses, and society as a whole. As a leading private equity firm, it has been imperative for us to consider the potential impacts of climate change by our portfolio companies as we commit to continue integrating Environmental, Social, and Governance (“ESG”) factors into our decision-making processes across the investment lifecycle.

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[1] IPCC, AR6 Synthesis Report: Climate Change 2023
[2] WMO, Global temperatures set to reach new records in next five years, 17 May 2023
[3] UNFCCC NDC Registry, China’s Achievements, New Goals and New Measures for Nationally Determined Contributions (2021)
[4] UNFCCC NDC Registry, Progress on the Implementation of China’s Nationally Determined Contributions (2022)

As part of our effort to addressing climate-related risks and driving ESG integration, we have developed a range of strategies and processes to measure and manage the exposure of our portfolios to climate change. In addition to being a signatory of UN PRI since our founding in 2017, we became a public supporter of Task Force on Climate-Related Financial Disclosures ("TCFD") in 2022 and have decided to start aligning our reporting with TCFD starting in 2023. By adopting the TCFD framework, we intend to provide transparency and clarity on how we assess and address climate-related risks and opportunities. This inaugural TCFD report describes how we govern and manage climate-related risks and highlights our engagement efforts in the past year to enhance climate disclosure and promote renewable energy use among portfolio companies.

## 2. Governance

At Nexus Point, we are committed to establishing a robust governance structure to effectively implement the firm's sustainability commitments and goals, including climate-related matters.

The firm's ESG Committee ("the Committee") oversees the management of climate-related risks and opportunities. The Committee, comprising the three Partners and two Managing Directors of the Firm, is accountable for providing strategic direction and the delivery of the firm's response to climate change and holds regular committee meetings every quarter on ESG and climate topics.

To ensure effective integration of climate risks and opportunities into the firm's planning and decision-making activities, the Committee conducts regular monitoring of the latest developments in climate-related regulations and best practices by engaging key ESG stakeholders such as regulators, ESG advisors/subject matter experts, portfolio companies' management and customers, and Limited Partners. Due to the evolving regulatory approach to climate change, the Committee oversees the development of the relevant action plans and approves changes as necessary to the firm's climate policies through these engagements to ensure compliance with regulatory requirements and adherence to our commitments on climate.

Nexus Point aims to support and increase engagement with our portfolio companies in managing climate-related risks and opportunities. In this regard, the Committee sets long-term climate goals and conducts regular meetings with the relevant ESG-responsible parties of the portfolio companies to monitor and advise on relevant strategies on climate-related issues.

The firm's policies and commitments to ESG and climate-related matters have been significantly influenced by the above governance mechanism, including but not limited to:

- Nexus Point has been a signatory of PRI (Principles for Responsible Investment) since 2017 and a public supporter of TCFD since 2022.

- As a supporter of the TCFD framework, Nexus Point ESG Committee is working to gradually roll out various TCFD-recommended climate reporting standards across our portfolio.
- Nexus Point has committed to achieving carbon neutrality by 2025 in Scopes 1 & 2 terms for its own operations.

## 3. Strategy

Nexus Point actively observes market development related to climate-related risk management, and keeps improving our understanding of the relevant strategies, processes, and analytical tools required for such changes. In this Strategy section, we outline the climate-related risks and opportunities we have identified to be relevant to our investments and their potential impact.

The systematic risks and impacts of climate change on the economics of various industries across our portfolio affect the fundamentals of our investments and the increasing focus towards climate change and a low-carbon economy leads to evolving demand, resource supply, and compliance needs. Accordingly, we acknowledge the imperative to understand the type of changes occurring across our investment portfolios.

To identify and form a preliminary assessment of the materiality of climate-related matters within its investment portfolio, with the assistance of third-party advisors, Nexus Point has developed a toolkit in the form of a heatmap for physical and transition climate risks. The heatmap derives materiality scores to provide insights on the significance of physical and transition risks for each portfolio company, enabling us to follow-up with the relevant actions in climate risk management of our current [and potential portfolio companies. Below are the approaches behind our heatmap which analyses both physical and transition climate risks:

- <u>Physical risks</u>

Nexus Point leverages the dataset and methodology from ThinkHazard!, an open-source tool to determine the impacts of environmental hazards on companies or projects developed by the Global Facility for Disaster Reduction and Recovery (GFDRR), to assess physical risk materiality for each portfolio company. The tool examines the intensity and severity of 11 hazards (e.g., coastal flood, water scarcity, and wildfire) and categorises each hazard into High, Medium, Low or Very Low categories based on input locations.

- <u>Transition risks and opportunities</u>

We utilise SASB Materiality Map and UNEP FI Heatmap to analyse the associated transition climate risk of a portfolio company. In particular, the Sustainability Accounting Standards Board (SASB) Materiality Map helps us determine sectors for which GHG Emissions and Energy Management are deemed material and thus, categorised to have high transition climate risks. Additionally, the UNEP FI Heatmap combines the perspectives of forty financial institutions on transition risk materiality for different sectors.

Accordingly, we consider the transition risk score from both sources to derive a final transition risk score for each portfolio company.

Below are some examples of climate-related risks and opportunities potentially relevant to our investments:

| Risk Category | Risk Drivers | Risk Description | Risk / Opportunity | Potential Impact |
|---|---|---|---|---|
| Physical risk | Chronic | Climate-change induced variability and changes to weather patterns (e.g., water scarcity, rising temperatures, precipitation, or sea level) | Risk | Potential increase in costs of raw materials and revenue erosion due to systematic production and supply chain disruptions. |
| | Acute | Increasing occurrence and intensity of weather events (e.g., wildfires, typhoons, and coastal floods) | Risk | Potential increase in costs of production or delays in service delivery. |
| Transition risk | Policy and Legal | Compliance requirements for ESG products | Risk/ Opportunity | Increase in operating cost to align with stricter compliance needs (e.g., reporting requirements on GHG emissions) and potential to showcase climate and ESG commitment and capability leading to a more favourable market position. |
| | Technology | Climate technologies | Opportunity | Revenue uplift and savings from adoption of technologies supporting climate mitigation and adaptation such as through renewable energy consumption. |
| | Market | Demand for climate-conscious businesses | Risk / Opportunity | Increase in R&D costs or market share by offering climate-conscious products. |
| | | Depletion of carbon-intensive materials | Risk | Reduced margins due to an increase in procurement costs of carbon-intensive inputs (e.g., oil, cement, steel, coal). |
| | Reputation | Increased scrutiny from consumers / clients on climate action | Risk | Reduced customer base if climate action deemed insufficient |

## 4. Risk Management

### 4.1. Climate Risk Management

- Pre-investment

Nexus Point primarily refers to the International Finance Corporation (IFC) 2012 Performance Standards on Environmental and Social Sustainability's investment exclusion list as an initial ESG screening tool for potential deals which may have material adverse impacts on climate change. Correspondingly, Nexus Point would consider terminating any investment opportunities with business activities listed on the exclusion list.

Additionally, we perform ESG due diligence on all potential investment targets and categorize each investment target into its relevant risk category based on the materiality of the identified ESG risks with climate risks being a key component. Our thorough examination of the target portfolio companies' information and documentation, along with site visits and interviews, helps us identify climate-related factors that could affect investment performance. At all stages of the evaluation process, we work closely with the target company's management to discuss and suggest applicable improvements on the identified climate risks and opportunities.

- Post-acquisition 100-day Plan

Nexus Point communicates our climate-related policies and guidelines to our transaction counterparts during the investment documentation and post-investment value creation planning stages and works closely with them to develop improvement roadmaps and planning in accordance with the identified climate risks and opportunities during the due diligence process. The short-term portion of such a plan is comparable to a "100-Day ESG Improvement Plan".

- Post-investment

Post-close, Nexus Point continues to work closely with its portfolio companies on ESG topics (including climate-related matters) and may engage external service providers if necessary. ESG action plans or improvement initiatives are also incorporated into a portfolio company's forward-looking business plan and are examined regularly in monthly portfolio company reviews as well as at each portfolio company's Board meetings. As part of their auditing duties, Nexus Point requires the portfolio company's senior management to evaluate the proper implementation of organizational criteria on climate-related topics. Nexus Point and its appointed advisors will collaborate closely with the company's management to determine the relevant corrective action plans.

Nexus Point gathers climate-related data at the corporate and portfolio company levels with reference to the ILPA ESG Data Convergence Project framework (e.g., greenhouse gas emission and reduction, use of alternative energy sources) which are then analysed and used to develop action plans to enhance climate-related matters at portfolio companies. These initiatives include the construction of solar panel projects at three of our portfolio companies, promoting energy conservation at all of our portfolio companies, and reducing Volatile Organic Compounds (VOC) emissions in one of our portfolio companies.

In addition, to reinforce our assessment of climate transition risks, we are committed to aligning with the goals of the Paris Agreement to limit the increase in global temperature to 1.5 degrees Celsius and China's related policies on climate change. Currently, we are making efforts in decarbonising our portfolio and will continue to work closely with our portfolio companies to enhance our alignment. While we currently focus on reducing GHG emissions from electricity consumption, we are committed to expanding our emissions reduction coverage to account for the broader value chain when it is feasible to do so.

- Disclosure

We disclose our current progress through various reporting forms, such as annual PRI reporting, confidential fund reports to LPS, and briefing or discussion at LP advisory committee meetings, for greater transparency in our strategy to integrate climate issues. Nexus Point ESG Committee is working regularly to progressively implement various TCFD-recommended climate reporting criteria across our investment portfolio. Relevant updates to climate-related developments are provided in monthly reports and discussed annually with Nexus Point's senior management team for review purposes.

## 4.2. Portfolio Company Engagement

Nexus Point actively engages with its portfolio companies on ESG related matters, including climate change. Nexus Point and its appointed advisors collaborate closely with senior management of its portfolio companies to develop corrective action plans to improve key sustainability metrics. Particularly on climate change, we aim to support our portfolio companies in managing climate-related risks and opportunities in their transition towards a low-carbon economy. The paragraph below elaborates on our climate-related engagements conducted in 2022, which were aimed to expand the availability of climate data from our portfolio companies and enhance our ability to assess climate-related risks and opportunities within our portfolio.

- Climate Data Collection and Disclosure

As part of our preparation for this report, we have been engaging with our portfolio companies to enhance their disclosure of climate data. Together with our appointed advisor, we encouraged our portfolio companies to collect climate-related metrics related to their operations. We believe that this ongoing engagement will enable us to identify the current gaps and determine the relevant corrective action plans regarding our portfolio companies' policies and actions on climate-related risks and opportunities. We will continue to monitor progress on the improvement actions on a regular basis and disclose such developments accordingly.

- Renewable Energy Adoption

Nexus Point has engaged at least three portfolio companies regarding renewable energy adoption to improve their efforts in reducing GHG emissions in 2022. This series of engagements was developed based on our target to achieve carbon neutrality in our own operations by 2025 and we encourage our portfolio companies to implement such principles in support of Goal 13 of the UNSDGs on climate action. The objective of these engagements is to encourage the relevant portfolio companies to source at least 15% of their total electricity usage from renewable sources.

For such engagements, we generally started by engaging the related stakeholders such as the Board and management of the portfolio companies and the current and potential Energy Management Contract ("EMC") vendors. Subsequently, we thoroughly reviewed renewable energy supply proposals from various EMC vendors with the Board of the respective portfolio companies to reduce fossil fuel-based energy consumption and develop renewable energy capacity expansion plans for each portfolio company. Through these engagements, we managed to expand renewable energy usage by at least 15% apart from providing financial incentives from reduced electricity bills to the three portfolio companies. We are also committed to emphasizing the adoption and expansion of renewable energy usage for other portfolio companies and potential portfolio companies, such as by including the topic as a criterion in the ESG screening and due diligence stages.

## 5. Metrics and Targets

Nexus Point regards transparency and availability of climate data as an imperative to gain better insights into the climate-related risks and opportunities associated with our own operations and investment activities.

### 5.1. Firm and Investment Metrics

**Firm-level Metrics**

We have completed an exercise to estimate our firm-level GHG emissions (including relevant indirect emissions) in line with the Corporate Standard published by the GHG Protocol. The emissions coverage includes operational Scope 2 emissions from purchased electricity only, as our operations do not include any consumption of fuel for stationary or mobile use and have minimal emissions from refrigerants. Below is the summary of our operations emissions data as of December 2022:

| Firm-level Climate Metrics | Amount |
|---|---:|
| **Total Scope 2 emissions (tCO2e)** | 13 |
| **Operational Carbon Footprint (tCO2e/ million USD AUM)** | 0.02 |
| **Total Scope 3 emissions on investments (tCO2e)** | 14,969 |
| | |

**Investment Metrics**

We aim to disclose climate data on our investment activities by leveraging the applicable data sources and encouraging our portfolio companies to improve their disclosures on climate, in line with the TCFD recommendations and Partnership for Carbon Accounting Financials (PCAF) guidance. The followings are the metrics used in our current exercise:

- Financed Emissions

To account for our financed emissions from Scope 1 and 2 GHG emissions of our portfolio companies in line with the GHG Protocol, we leverage activity data collected from our respective portfolio companies and the relevant emission factor data from country-specific sources or the Intergovernmental Panel on Climate Change (IPCC), depending on current data availability. Our current approach covers stationary combustion from natural gas consumption, mobile combustion from gasoline and diesel consumption, and fugitive emissions from refrigerant for Scope 1 emissions, as well as purchased electricity and heating for Scope 2 emissions. Accordingly, the product of the total Scope 1 and 2 emissions for each portfolio company in tonnes of CO2 equivalent (tCO2e) and the share of our ownership in each portfolio company results in our financed emissions, as illustrated by the formula below:

$$Financed\ emissions\ = \frac{Amount\ invested\ (US\$m)}{Total\ debt + equity\ (US\$m)} \times company's\ emissions\ (tCO2e)$$

- <u>Portfolio Carbon Footprint</u>

Portfolio carbon footprint is a representation of carbon emissions normalised by the portfolio's market value and expressed in tons of carbon dioxide equivalent emissions (CO2e) per million dollars invested. Below is the formula used to calculate portfolio carbon footprint:

$$Portfolio\ carbon\ footprint\ = \frac{\sum Financed\ emissions\ (tCO2e)}{Portfolio\ AuM\ (US\$m)}$$

- <u>Weighted Average Carbon Intensity (WACI)</u>

WACI measures the carbon intensity of an investment portfolio based on the carbon emissions associated with each unit of revenue of the underlying portfolio companies. This enables us to gain insights into our portfolio's exposure to carbon-intensive companies or assets through the following formula:

$$WACI = \sum_{n}^{i} \left( \frac{Amount\ invested\ (US\$m)}{Portfolio\ AuM\ (US\$m)} \times \frac{company's\ emissions}{company's\ revenue\ (US\$m)} \right)$$

The following tables outline fund-level climate metrics for our investments:

| Fund-level Climate Metrics | Fund I | Fund II |
|---|---|---|
| **Financed Emissions Scope 1 (tCO2e)** | 2,642 | 122 |
| **Financed Emissions Scope 2 (tCO2e)** | 11,943 | 262 |
| **Financed Emissions Scope 1+2 (tCO2e)** | 14,585 | 384 |
| **Portfolio Carbon Footprint (tCO2e/ million USD AUM)** | 24.97 | 1.53 |
| **WACI (tCO2e/ million USD revenue)** | 40.07 | 1.11 |

### 5.2. Targets

As part of our ongoing commitment to address climate-related risks, we have committed to achieving carbon neutrality in our operations by 2025. Accordingly, we will track and report our progress towards this target on an annual basis through greenhouse gas inventory management and other initiatives to reduce emissions. We will also conduct periodic reviews and update our climate targets as necessary to ensure alignment with industry best practices on climate risk management.