T. Rowe Price®
INVEST WITH CONFIDENCE

Case study

GLOBAL IMPACT CREDIT STRATEGY

NextEra Energy Partners

The following case study is a selected example of a recent engagement with a company held in or considered for the portfolio. The example is not meant to be representative of every engagement held, but to illustrate the types of ESG engagements we are having with the managements of our investment companies.

Case Study

REDUCING GREENHOUSE GASES (GHGs)

NextEra Energy Partners

Pressure Points

With energy generation responsible for over 35% of global CO_2 emissions,[1] decarbonizing the energy supply sector is essential to meet the 1.5°C to 2.0°C temperature rise limits prescribed by the Paris Agreement. The International Energy Agency identified low-emissions electricity replacing fossil fuels as a principal driver of emissions reductions, potentially accounting for around 20% of the total reduction target by 2050.[2]

Impact Thesis

NextEra Energy Partners (NEP) operates an industry-leading portfolio of wind, solar, and battery storage assets. Of the power it generates, 100% comes from clean or renewable resources, which will accelerate global decarbonization by supporting the transition of energy production away from fossil fuels and toward low-carbon alternatives.

KPI: Installed capacity (MW) from renewable projects managed, energy generated (MWh) from renewable projects managed, metric tons of CO_2 avoided

Five Dimensions of Impact

What: Reduction of GHG emissions from the generation of renewable energy.

Who: Our planet, municipalities, and people.

How much: In 2020, 5,730 MW of renewable power assets generated over 18.6 million MWh of electricity and helped avoid over 9.7 million metric tons of CO_2 emissions. Clean energy generation increased 9% relative to 2019. Installed renewable energy generating capacity increased 44% in 2021.[3]

Contribution: NEP increased its renewable asset portfolio by 2,530 MW in 2021. Increasing investment in renewable energy generation will provide clean energy at a lower cost for individuals across the U.S.[4]

Risks: NEP owns an interest in natural gas pipeline assets, composing 23% of company revenue. Natural gas pipelines can adversely affect the environment through habitat loss, sedimentation, and air emissions.

Progress Monitoring

In 2019, NEP acquired an ownership interest in a 185-mile natural gas pipeline in Pennsylvania and a 40% ownership interest in an expansion project of the gas pipeline. We are closely monitoring whether the company acquires additional natural gas pipelines, which may compromise the investment case.

PRIMARY UN SDG

7 AFFORDABLE AND CLEAN ENERGY

IMPACT PILLAR

Climate and Resource Impact

IMPACT SUB-PILLAR

Reducing Greenhouse Gases (GHGs)

IMPACT JOURNEY

Input

USD 703 million revenue from renewable energy sales[5]

Output

5,730 MW (net) installed renewable energy capacity[3]

Outcome

18.6 million MWh energy generated from wind and solar[3]

Impact

9.7 million metric tons of CO_2 avoided[4]

[1] Hannah Ritchie and Max Roser (2020), "CO_2 and Greenhouse Gas Emissions." Published online at OurWorldInData.org

[2] International Energy Agency (April 2021)

[3] NextEra Energy (February 2022)

[4] NextEra Energy 2021 ESG Report

[5] NextEra Energy (2021)

GLOBAL IMPACT CREDIT STRATEGY
Objective

The composite of the Global Impact Credit Strategy simultaneously seeks benchmark outperformance and positive environmental and social impact by investing in durable, growing businesses with measurable impact criteria.

Risks–the following risk is materially relevant to the portfolio:

ABS and MBS risk - Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) may be subject to greater liquidity, credit, default and interest rate risk compared to other bonds. They are often exposed to extension and prepayment risk.

Contingent convertible Bonds risk - Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others.

Convertible bonds risk - Convertible bonds contain an embedded equity option which exposes them to risks linked to equity as well as fixed income. They may be subject to higher market and liquidity risk.

Credit risk - Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the portfolio.

Distressed or defaulted debt risk - Distressed or defaulted debt securities may bear substantially higher degree of risks linked to recovery, liquidity and valuation.

Default risk - Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds.

Derivatives risk - Derivatives may be used to create leverage which could expose the portfolio to higher volatility and/or losses that are significantly greater than the cost of the derivative.

Emerging markets risk - Emerging markets are less established than developed markets and therefore involve higher risks.

High yield debt risk - High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions.

Interest rate risk - Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates.

Liquidity risk - Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price.

Prepayment and extension risk - Mortgage and asset-backed securities could increase the fund's sensitivity to unexpected changes in interest rates.

General Portfolio Risks

Capital risk - the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Counterparty risk - an entity with which the portfolio transacts may not meet its obligations to the portfolio.

ESG and Sustainability risk - may result in a material negative impact on the value of an investment and performance of the portfolio.

Geographic concentration risk - to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk - a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk - investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk - the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk - operational failures could lead to disruptions of portfolio operations or financial losses.

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