Responsible Investment Policy

Last updated: December 2019

Introduction

This document sets out Arjun's approach to responsible investment, covering the following aspects:

- Arjun's responsible investment philosophy;
- How responsible investment is governed;
- How we report to our investors and stakeholders regarding our responsible investment activities; and
- How we implement our responsible investment approach throughout the investment lifecycle.

Arjun's responsible investment philosophy

The United Nations Principles for Responsible Investment (UN PRI) defines responsible investment as "an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns."[1]

Arjun is committed to making and managing investments in a responsible manner and incorporates best practice approaches at all stages of the investment lifecycle. We believe that our responsible investment practices represent an important part of our fiduciary responsibilities and our ability to deliver attractive risk-adjusted returns over the long term.

Arjun's asset management activities are focussed around both value preservation and sustainable value creation, reflecting our investors' long-term investment horizon. Responsible investment practices and comprehensive consideration of ESG factors at all stages of the investment lifecycle are a critical aspect of this long-term approach. ESG issues present opportunities as well as risks and are therefore integrated into both value preservation and value creation initiatives.

Arjun recognises that the infrastructure investments we make and manage on behalf of our clients can have a material impact on the environment and the societies and stakeholders associated with those assets. We are committed to conducting our business in a manner that protects the environment, health and safety of our employees, customers and the international communities in which we operate. We operate on the principle that we can make quality business decisions while conserving and enhancing resources for future generations.

Arjun publicly demonstrates our commitment to responsible investment through being a signatory to the UN PRI (the six principles of UN PRI are set out in appendix 1). Furthermore, as a member of the Long-Term Infrastructure Investors Association (LTIIA) and the Global Infrastructure Investors Association (GIIA), we follow the ESG guidance and participate in the ESG-related activities of these associations, which includes engagement with other infrastructure industry participants and wider stakeholders on responsible investment topics.

Responsible investment governance

Every member of the investment and asset management team is responsible for implementation of Arjun's responsible investment policy during the investment evaluation, execution and asset management phases of the investment lifecycle. Team training is undertaken to ensure that team members have the appropriate knowledge to carry out their responsibilities.

Arjun's Management Committee oversees the implementation of the responsible investment policy, with executive responsibility delegated to Peter Antolik (Partner, board member and COO).

On an annual basis, our responsible investment policy is reviewed and updated (if required) and objectives are set for the year ahead. Objectives can include team training on specific aspects of ESG incorporation (e.g. techniques for improving analysis and measurement of ESG risks and opportunities), participation in relevant initiatives (e.g. industry working groups to promote or enhance responsible investment practices) or expanding the scope of our responsible investment practices.

[1] Source: www.unpri.org

Reporting to our investors and stakeholders

In terms of reporting to investors, quarterly reports on each individual investment contain a section on ESG which reports on ESG KPIs, updates on any relevant ESG initiatives / developments and any incidents during the quarter. Where an ESG-related incident takes place which Arjun considers to be of importance to the investors in the relevant asset, Arjun will disclose the incident to those investors as soon as reasonably practical after learning of the incident.

Arjun will complete the UN PRI assessment annually, with the resulting report being publicly available on the UN PRI website.

Arjun also intends to publish an annual responsible investment report starting from 2020, which will be made publicly available via our website. This report will summarize ESG-relevant conclusions and actions from investment activities, ESG initiatives undertaken during the year across the portfolio of assets under management and plans for the following year.

Responsible investment implementation

Overview

Arjun typically focusses on investments in operational infrastructure assets. As a result, our responsible investment activities begin at the pre-investment stage by identifying and assessing the existing ESG issues relevant to the asset being evaluated as well as considering issues which may affect the asset in the future (for example, due to climate change). Assuming our due diligence supports the case for investment, we will then incorporate initiatives, processes and policies to monitor and manage material ESG considerations as part of the asset management plan created for the asset and as part of the ongoing reporting and engagement processes.

Infrastructure assets that we evaluate as potential investment opportunities can be at significantly different levels of progress toward incorporating ESG issues within their policies and operations. When we identify that current ESG standards are not satisfactory, or where material ESG risks are identified, we may still be prepared to invest if we have conviction that we can mitigate the risks and improve ESG outcomes during our ownership. However, if an ESG risk is identified as being material and no satisfactory mitigants exist, then we will not pursue the investment.

There are a wide range of potential environmental, social and governance issues which can impact infrastructure investments. The issues which are relevant will vary from asset to asset depending on variables including the size and type of asset and its geographic location. As a result, we believe that it is not effective to take a 'one-size-fits-all' checklist approach to identifying, assessing, managing and monitoring material ESG risks and that each process must be tailored to each asset. However, examples of the types of ESG issues considered by Arjun are described in appendix 2.

Pre-investment stage

The first phase of our investment process is to complete a desktop due diligence review exercise based on information made available by the vendor, publicly available information and discussions with management, the vendor and/or their advisors. One of the key workstreams within this process is an ESG review whereby we:

- Identify ESG issues relevant to the business;
- Evaluate the identified issues based on the information available and assess their potential materiality;
- Incorporate the identified potential ESG issues into the scope for the subsequent due diligence phase, including in the scope of the relevant external due diligence advisers (legal, financial, technical, environmental etc.) and management information requests; and
- Where possible at this stage, consider the available mitigants to any material ESG risks identified.

At the end of this review process, Arjun will provide the relevant potential investors with a presentation providing key details regarding the investment opportunity. This will include a summary of the ESG workstream as outlined above.

The presentation provided to potential investors will include a proposed due diligence scope and budget for the final binding offer stage. Where the relevant client(s) opt to engage a specialist ESG due diligence adviser then this is added to the diligence scope and budget.

Prior to completion of the binding offer stage (i.e. once all due diligence has been completed by Arjun and the relevant due diligence advisers) all material ESG issues identified and evaluated are documented in Arjun's final investment report, together with the associated plan for mitigating each risk. Mitigants can include asset management initiatives (for example implementation of processes and procedures as part of the asset management plan) or an adjustment to the proposed terms of the binding offer (for example price or covenants in the sale and purchase agreement).

Prior to submitting a binding offer, a final presentation is provided to potential investors including details on the material ESG issues identified and associated mitigants. This provides our investors with the opportunity to ensure that they are comfortable with our ESG evaluation before an investment is completed.

Post-acquisition asset management

Portfolio company governance

For infrastructure assets with an internal management structure, upon acquisition Arjun will ensure that appropriate governance structures are in place and that management devotes sufficient resources to managing ESG factors that have been identified.

Within each business, responsibility for ESG and safety matters must be allocated to one or more executive manager(s) who report directly to the board of directors. Responsibilities will include reporting on agreed ESG key performance indicators ("KPIs"), leading ESG improvement initiatives, and identifying material ESG-related incidents to the board, who will in turn report such incidents to Arjun.

Arjun also oversees the implementation of responsible investment policies and practices at the portfolio company level which are appropriate to each portfolio company's specific circumstances and which specifically address any material ESG issues identified in the pre-investment phase. Topics to be covered by appropriate policies include ESG, human resources (covering aspects including discrimination, fair wages, human rights) and responsible contractor requirements.

Asset management initiatives

Post-acquisition, Arjun will work with the company's management team and/or service providers to establish an asset management plan and ongoing reporting requirements.

The asset management plan will include ESG-related initiatives focussed on seeking to address the ESG issues (both risks and opportunities) identified during the pre-investment phase. This will involve establishing KPIs and other monthly/quarterly reporting requirements as well as targets for improving ESG-related outcomes. Where relevant, management remuneration structures will be linked to performance against the agreed KPIs and targets.

Depending upon the nature of the company's business, KPIs may include safety performance, resource usage (e.g. energy, water, waste), emissions (e.g. carbon, greenhouse gases, pollution measures), and environmental compliance. KPIs will typically have associated targets for reduction/improvement.

Active maintenance/upgrade projects

Whenever a major project is undertaken to maintain or upgrade an asset managed by Arjun, ESG considerations form an important part of the process of evaluation, planning and executing the project. Relevant considerations vary according the asset and the specific project being undertaken, but can include environmental site selection requirements, sustainable construction materials, energy efficiency requirements, waste management plans at development sites, etc., Where relevant, environmental and social impact assessments will be commissioned prior to commencing a project.

Where third-party operators are appointed in relation to any project, the third-party operator appointment process outlined below will be implemented.

Stakeholder engagement

Arjun recognises that the infrastructure investments we make and manage on behalf of our clients can have a material impact on the societies and stakeholders associated with those assets. We also recognise that maintaining the 'social licence to operate', which is fundamental to value preservation, is dependent upon the support of stakeholders. Relevant stakeholders can include local communities, customers, contractors, supply chain participants, regulators and public policymakers.

Relevant stakeholders are identified as part of the process of establishing an asset management plan for each investment and objectives for engaging with the identified stakeholders are included as part of the asset management plan. Where possible we seek to measure and monitor the impact of stakeholder engagement initiatives (e.g. through customer satisfaction scores, feedback forms, event attendance).

Appointing third-party operators

Third party operators are often engaged to provide operations and maintenance services to infrastructure assets managed by Arjun. In some instances, all operational activities will be outsourced with the relevant asset having no employees or internal management.

When hiring service providers, AIP will include ESG considerations as part of the selection process. Factors considered include:

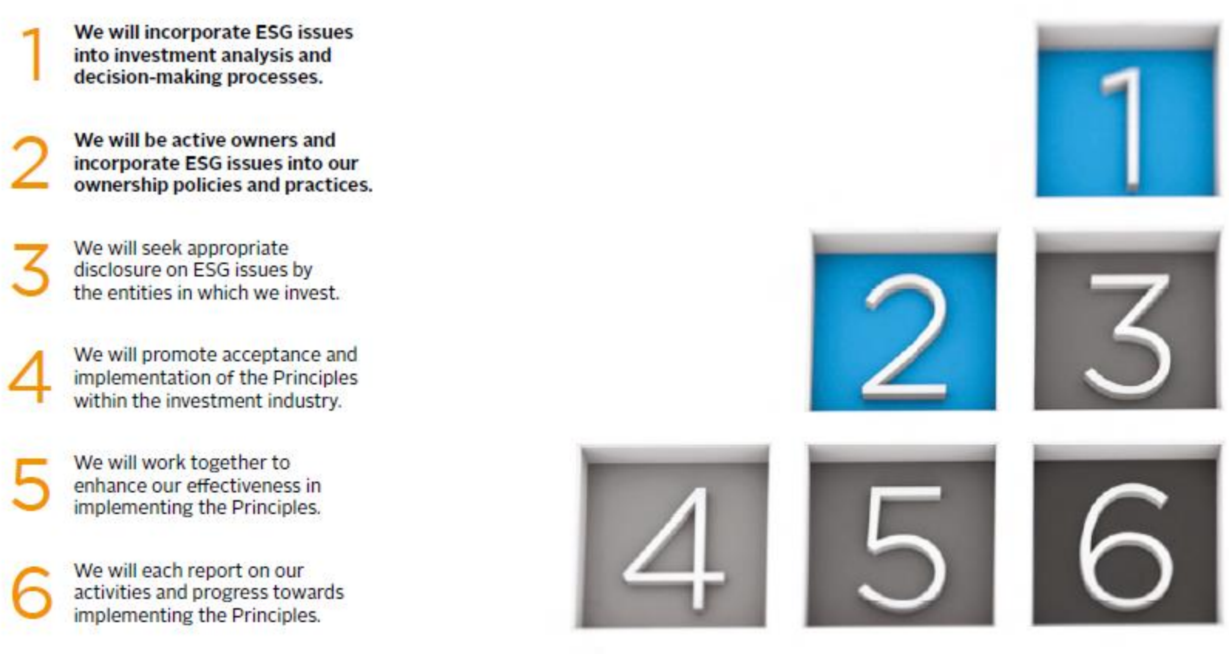
- Evidence of fair wages and benefits being paid by the service provider
- Health & safety track record;
- Environmental track record; and
- Policies and procedures in place including in relation to human resources, ESG practices and management governance.

We take a hands-on approach to monitoring the performance of service providers as part of our ongoing asset management practices, with daily interaction being the norm for assets currently in the portfolio which involve third party service providers. We will revisit relationships with service providers in the event that they fail to meet ESG expectations.

Exit

Arjun's clients have long-term investment horizons and our client mandates typically do not envisage an exit within a defined time period. Therefore, Arjun does not incorporate exit planning into our core asset management activities. Should a client wish to exit an investment, we believe that our responsible investment practices and in particular the emphasis on sustainable long-term value creation during our ownership period will ensure that portfolio companies are positioned favourably to attract incoming acquirers.

Appendix I: UN PRI principles



Appendix 2: Examples of ESG factors considered during investment evaluation

A wide range of potential environmental, social and governance issues can impact infrastructure investments. The issues which are relevant will vary from asset to asset depending on variables including the size and type of asset and its geographic location. As a result, we believe that it is not effective to take a 'one-size-fits-all' checklist approach to identifying, assessing, managing and monitoring material ESG risks and that each process must be tailored to each asset. However, examples of the types of ESG issues considered by Arjun are listed below:

Environmental

- Resource usage and environmental performance, including:
  - Energy generation/consumption/efficiency (taking into account generation source, i.e. conventional vs renewable)
  - Greenhouse gas emissions
  - Carbon intensity
  - Water consumption
  - Air, noise and light pollution

  - Waste generation/management
  - Indoor air quality
  - Biodiversity/ecology impacts
  - Changes in landscape / land use
  - Land contamination
- Susceptibility to environmental impacts such as extreme weather events, flooding and natural disasters
- Consideration of potential future impacts from factors such as:
  - Climate change
  - Increased regulation of greenhouse gases
  - Changes to energy/water pricing
  - Increased regulation of pollution or/and waste
- Potential for cost savings from energy efficiency improvements / reduced resource consumption
- Supply chain sustainability

Social

- Health and safety track record
- HR/employee considerations, such as:
  - Working conditions (including slavery and child labour)
  - Fair wages
  - Diversity and anti-discrimination
  - Employee relations
  - Affordable workforce housing
  - Labour standards in procurement policy and supply chain
- Relationships with local communities (including users of infrastructure and other stakeholders), e.g. accessibility and social inclusion, community development, and social enterprise partnering
- Relationships with infrastructure users:
  - Service reliability
  - Fair treatment of customers
  - Customer satisfaction
- Consideration of potential future impacts from factors such as demographic changes

Governance

- Shareholder considerations, e.g. shareholder structure and rights, alignment of interest between shareholders
- Governance structure, including:
  - Board structure, composition, diversity, experience, independence, conflicts of interest
  - Independent directors
  - Management structure, diversity and experience
  - Information disclosure
- Executive benefits and compensation
- ESG management, e.g.:
  - Management and board oversight of ESG
  - Policies and systems relating to sustainability and ESG issues and the governance of those policies
  - Track record on ESG performance improvements in line with policies and procedures
  - Stakeholder management and community relations
  - Environmental management systems
- Business strategy (both the ESG implications of business strategy and how the strategy is implemented)
- Risk management (e.g., regulatory and reputational risk) processes and internal controls
- Cybersecurity
- Business ethics considerations, e.g. bribery and corruption, whistle-blowing schemes, lobbying and tax policy