ARJUN Infrastructure

Responsible investment policy statement

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Introduction

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

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

Arjun's responsible investment philosophy and commitments

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.

We also believe that our fiduciary responsibility is to maximise overall long-term value for our clients and their beneficiaries, which includes the value of the common economic, social and environmental assets on which clients' and beneficiaries' interests depend in addition to the financial returns from our investments. We recognise 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 also recognises that climate change represents a systemic risk to the global financial system and is a significant source of both risk and opportunity to the investments that we manage in the short, medium and long term. We publicly support the Paris Agreement and the Task Force on Climate-Related Financial Disclosures (TCFD). We are committed to working with our portfolio companies to ensure that they are minimising and disclosing the risks, and maximising the opportunities, presented by climate change. We are also committed to working to minimise our firm's carbon footprint.

Arjun believes in the importance of focussing on sustainability outcomes and in particular supports the 2030 Agenda for Sustainable Development Goals (SDGs) adopted by the United Nations Member States in 2015. Arjun is in the process of selecting the SDGs that we wish to prioritise, determining the associated sustainability outcome objectives, mapping the positive and negative implications of our portfolio companies' operations to the SDGs and incorporating sustainability outcomes considerations into our investment, stewardship and reporting activities.

Arjun is focussed on developing a consistent portfolio-wide approach to driving positive ESG outcomes. We have established four key topics that we will focus on across the portfolio: i) climate resilience and GHG emissions; ii) diversity and inclusion; iii) community impact & engagement and iv) health and safety. These topics were selected following a materiality assessment process undertaken to identify the ESG topics that are most likely to have a significant impact on the organisation's future sustainability and performance and were of most importance to key stakeholders including the portfolio companies and our team members.

[1] Source: www.unpri.org

Arjun publicly demonstrates its 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. Arjun maintains an internal responsible investment implementation handbook that is used by the team to ensure compliance with our responsible investment policy and practices and team training is undertaken to ensure that team members have the appropriate knowledge to carry out their responsibilities. Arjun team members are set formal objectives regarding responsible investment as relevant for their various roles, with performance against these objectives contributing to the determination of variable compensation as part of the Arjun's performance review process. Arjun's Management Committee oversees the implementation of the responsible investment policy and implementation handbook, with executive responsibility delegated to Peter Antolik (Partner, board member and COO). Updates to policies or practices are approved by the Management Committee.

ESG matters are discussed in all Arjun committee forums (board of directors, management committee, investment committee, risk management and compliance committee) and relevant regular internal meeting forums (all staff meeting, investment, asset management, marketing, operations, valuation review).

Arjun also has an ESG working group comprising senior members of the team working across all company functions as well as Arjun's Industry Partner for ESG matters. The working group meets at least fortnightly to ensure that all ESG policies, procedures and initiatives are being implemented appropriately. The ESG working group provides updates to Arjun's Management Committee at each Management Committee meeting. Current members of the ESG working group are Peter Antolik, Romain Py, Stine Birk, Nick Spencer and Alison Edet.

On an annual basis, our responsible investment policy is reviewed and updated (if required). Responsible investment and stewardship activities undertaken during the year are also reviewed 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), policy engagement and expanding or improving our responsible investment practices.

We also review our membership and participation with industry bodies and other collaborative activities on an annual basis to ensure that these bodies continue to align with our responsible investment principles and objectives, including with regards to stewardship activities.

Arjun maintains an ongoing dialogue regarding responsible investment with our clients in order to ensure that our policies and practices are meeting our clients requirements and are supporting them in delivering their own responsible investment objectives. Arjun has also committed to incorporating responsible investment commitments in limited partnership agreements (LPAs) as a standard, default procedure in order to formalise our commitments to our clients in this regard.

Regarding conflicts of interest, Arjun has a detailed conflicts of interest policy in place, stipulating that Arjun has a duty to act in the best interests of its investors. Should a conflict arise, Arjun's senior management will take appropriate steps to ensure fair treatment of all of investors, including disclosure of the conflict to affected investors

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. ESG matters are also discussed in investor meeting and limited partner advisory committee (LPAC) meetings. 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 is also committed to publishing an annual responsible investment report made publicly available via our website. This report summarises 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's responsible investment practices are documented in full in our internal ESG implementation handbook. The information provided in this section of our responsible investment policy represents a high level summary of our approach.

Pre-investment stage

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).

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.

We also maintain a list of excluded investment types which we will not invest in based on the values and beliefs of our own organisation and those of our clients, as well as legally required exclusions and minimum standards of business practice based on international norms.

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 to be considered by Arjun are described in Arjun's ESG implementation handbook.

Arjun utilises an ESG deal screen tool at the outset of reviewing any investment opportunity. This tool enables an initial assessment of ESG materiality (including stranded asset risk) for the asset being evaluated, incorporating the list of excluded investment types referenced above and materiality assessment inputs from SASB (Sustainability Accounting Standards Board), TCFD and the SDGs.

If the decision is taken to proceed with due diligence having completed the deal screening phase, then the next stage 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.

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).

Post-acquisition asset management

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.

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 is 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.

Arjun supports portfolio company management in delivering our ESG requirements through a range of means including ensuring board discussion, provide training to management and staff, appointing external experts and sharing best practice across portfolio companies.

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 and asset management initiatives to support meeting these targets. Management remuneration structures are linked to performance against the agreed KPIs and targets where possible.

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 and will be assessed against sector performance benchmarks.

A core group of KPIs will also be consistently implemented and tracked across all portfolio companies, including in relation to carbon emissions and health and safety.

Asset management plans are reviewed and updated on a regular (at least annual) basis to ensure that the targeted outcomes are being achieved and to optimise sustainability outcomes across the portfolio.

Where required, external advisors may be appointed to support the management of ESG issues and the delivery of ESG initiatives.

Active construction/maintenance/upgrade projects

Whenever a major project is undertaken to construct, 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 to 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, Arjun includes 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.

In order to ensure alignment with Arjun's responsible investment practices, contracts with third-party operators include ESG-related reporting requirements and performance targets, with incentives linked to performance targets where possible.

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. In an exit scenario we will share responsible investment information with potential buyers including our responsible investment policies, ESG performance data for the asset and our asset management plans and initiatives completed.

Approach to stewardship

The PRI defines stewardship as: "the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."

Arjun recognises that our fiduciary responsibility involves both ESG incorporation into investment decision making (as addressed above) and stewardship, with each aspect enhancing the other (e.g. by using insights garnered from engagement to enhance investment decision making and vice versa).

Arjun fulfils its stewardship responsibilities with regards to portfolio companies predominantly by taking direct roles on company boards and board committees and through using its influence and powers as a shareholder (in most case with a control or co-controlling shareholding). The ESG focus of our engagement with portfolio companies is to improve ESG practices, drive sustainability outcomes and improve public disclosure. We prioritise our engagement efforts across the portfolio based on a range of factors including the relative value of the interest that we manage in each asset, the relative materiality of the ESG issues relevant to each asset and the relative size and influence of each portfolio company.

Arjun fulfils its stewardship responsibilities with regards to policy makers and wider stakeholders through a range of tools including:

- engagement with policy makers;
- engagement with standard setters;
- contributions to research, media and public forums;
- and engagement with stakeholders and third-party operators as outlined in the 'responsible investment implementation' section above.

The focus of our engagement is to support and encourage sustainable investment practices within the infrastructure sector and greater investment into infrastructure supporting and delivering the transition to low carbon energy. We also focus our engagement on the four key topics that we will focus on across the portfolio: i) climate resilience and GHG emissions; ii) diversity and inclusion; iii) community impact & engagement and iv) health and safety. These topics were selected following a materiality assessment process undertaken to identify the ESG topics that are most likely to have a significant impact on the

organisation's future sustainability and performance and were of most importance to key stakeholders including the portfolio companies and our team members.

Where possible, Arjun seeks to work collaboratively with fellow infrastructure investors, most notably through our memberships of the Long-Term Infrastructure Investors Association (LTIIA) and the Global Infrastructure Investors Association (GIIA) who undertake collaborative engagement with other infrastructure industry participants and wider stakeholders on responsible investment topics.

Our stewardship approach is governed in the same way as our investment decision making approach, as described in the 'responsible investment governance' section above. This ensures that it is mandatory for all team members to follow Arjun's stewardship policy, that stewardship activities and objectives are communicated across the team, are implemented consistently and are fed into investment decision making and vice-versa.

We will report on our stewardship activities and outcomes as part of our annual responsible investment report.

Appendix I: UN PRI principles

1. **We will incorporate ESG issues into investment analysis and decision-making processes.**
2. **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.