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# Transparency of adverse sustainability impacts at entity level

30 June 2022

**Statement on principal adverse impacts of investment decisions on sustainability factors**

**Financial market participant** Arjun Infrastructure Partners Limited

## Summary

Arjun Infrastructure Partners Limited (LEI [insert]) (**Arjun**) considers principal adverse impacts of its investment decisions on sustainability factors.

## Background and future update/s

This statement provides information in relation to Arjun as prescribed by Article 4 of EU Regulation 2019/2088, known as the **Sustainable Finance Disclosure Regulation** or **SFDR**.[1] In particular, it provides information in relation to the new principal adverse impacts or PAI regime in SFDR.

The Level 2 requirements in relation to SFDR are expected to come into force on 1 January 2023. These are also known as the Regulatory Technical Standards (**RTS**).[2]

- These provide that relevant firms must publish a "Statement on principal adverse impacts of investment decisions on sustainability factors" by 30 June of each year, covering the previous period from 1 January to 31 December (inclusive). This is known as a reference period.
- This must be done using the template in Annex I to the RTS, including the detailed tables and indicators.
- The European Supervisory Authorities have confirmed that: *"where a financial market participant [e.g. Arjun] publishes the principal adverse sustainability impacts statement in accordance with the RTS for the first time, the RTS does not require the disclosure of information relating to a previous reference period (the section in Table 1 of Annex I "Description of principal adverse sustainability impacts"). Information that must be published in the first statement not related to reference periods includes the following sections in Table 1 of Annex I: "Summary", "Description of policies to identify and prioritise adverse sustainability impacts", "Engagement policies" and "References to international standards""*(emphasis added).[3]

For this reason:

- Arjun has set out in this document information in relation to the items underlined above;
- it has not made any disclosures in relation to reference periods – based on the guidance above, these are not applicable for now; and
- by 30 June 2023, it will publish a statement in the form of the RTS template, for all in-scope financial products, to provide PAI reporting in respect of the first reference period. For Arjun, this reference period will run from the earliest date on which it began to consider PAIs until 31 December 2022.

The sections of the RTS template shaded below in grey indicate the sections that will be completed at a later date, as indicated above.

## Description of the principal adverse impacts on sustainability factors

**Other indicators for principal adverse impacts on sustainability factors**

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1 See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088

2 See https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_ACT_part1_v6%20(1).pdf and https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_annexe_acte_autonome_part1_v6.pdf

3 See https://www.esma.europa.eu/sites/default/files/library/jc_2021_06_joint_esas_supervisory_statement_-_sfdr.pdf (pages 3 and 5).

To be provided by 30 June 2023

**Description of policies to identify and prioritise principal adverse impacts on sustainability factors**

- **Description of policies to identify and prioritise principal adverse impacts on sustainability factors and how those policies are kept up to date and applied**

There are three main parts to our overall approach to this subject.

***1. Negative Screening / Exclusion Policy***

Firstly, we screen all potential investments against a list of excluded investment types/industries/sectors (Arjun's 'exclusion list'). Examples of excluded activities include the following:

*"**General activity-based exclusions**, which include companies or corporations that directly, or through entities they control, receive a direct material revenue source from:*

*- the production, selling, or trading of tobacco;*
*- the production, selling, or trading of alcohol;*
*- the production, selling, or trading of cannabis for non-medical or recreation purposes, which includes end-products containing psychoactive cannabis for the same purposes;*
*- the production, selling, or trading of gambling or pornography; or*
*- the production and selling or trading of nuclear weapons or armaments, cluster munitions/mines, small arms, or other controversial weapons.*

***Energy exclusions**, which include companies or corporations that directly, or through entities they control, receive a direct material revenue source from:*

*- the extraction, processing, handling or use of thermal coal, including coal-fired power generation; or*
*- the extraction, processing, handling or use of oil sands.*

***Environmental-based exclusions**, including companies or corporations with activities resulting in significant adverse impacts upon:*

*- an area that is legally protected in relation to biodiversity, and/or is internationally recognised, or proposed for such status by national governments;*
*- a critical habitat (as defined under the International Finance Corporation's Performance Standards (2012));*
*- other ecosystems which support priority biodiversity features;*
*- sites of special scientific interest; or*
*- fisheries of economic importance.*

***Social and Human Rights exclusions**, including any investment in any company or corporation, which is directly in material breach of UN conventions and declarations on human rights, including child labour.*

***Governance and Corruption exclusions**, including:*

*- Companies or corporations, which are associated with serious and/or systematic corruption, or violation of international norms and standards, with no credible corrective action. These include, but are not limited to:*
  *a. Organisation for Economic Co-operation and Development (OECD) Anti-bribery Convention or its relevant implementing legislation;*
  *b. OECD Guidelines for Multinational Enterprises; and*
  *c. UN Global Compact Principles."*

***2. ESG Materiality and Risk Screening***

*Identification of PAIs*

Next, we have robust policies and processes in place to ensure that relevant issues are identified and taken into account before an investment decision is made. This includes sustainability factors, defined by SFDR to mean "*environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.*" Broadly, this can be equated to ESG factors or ESG-related issues. These are initially identified via a proprietary ESG Deal Screen Tool, and further developed as part of our subsequent due diligence (in the event that a deal progresses past initial screening). This approach is taken for all potential investments.

The identification of a particular ESG issue may lead to a decision not to proceed with a particular investment, or alternatively, to proceed subject only to a robust mitigation/management strategy being put in place.

*Prioritisation of PAIs*

Given the broad range of infrastructure types, the materiality of specific PAIs can vary significantly. For instance, (operational) carbon emissions will be less material for an existing wind farm asset; as compared to social infrastructure real estate. Similarly, emissions to water will be more material to wastewater-treatment assets, as compared to fibre-to-the-home (FTTH) assets.

For this reason, we do not believe it is possible to have a standard approach to prioritise particular PAIs. Rather, we take a bespoke approach to material PAIs, on a case-by-case basis. We believe that this bespoke approach allows more meaningful analysis of PAIs, enhances our risk management approach, and leads to more effective asset management and value creation.

Notwithstanding the above, we maintain a core set of PAI data for all in-scope investments, to meet – as a minimum – the required PAI disclosures under SFDR RTS Guidance. This ensures that even where a PAI is deemed to be relatively non-material for a particular asset, we have a core set of comparable PAI metrics to consider our impacts at an entity/portfolio level.

***3. Active Asset Management***

We take an active approach in relation to the monitoring and management of investee companies. Among other things, we ensure appropriate governance structures are in place within investee companies and that the management team devotes sufficient time and resource to the management of any key ESG factors identified in the due diligence phase.

We also require the establishment of ESG-related policies and procedures (where these are missing at acquisition). These policies cover ESG factors ranging from whistleblowing and Human Resources; to Modern Slavery and responsible contractor policies.

Our approach to governance also involves establishing KPIs and other regular reporting requirements as well as targets for improving ESG-related outcomes and asset management initiatives to support meeting these targets.

***Continual Improvement***

Our policies and processes are subject to ongoing review and improvement, incorporating lessons learned and industry best practice developments. They are reviewed at least annually and updated as required. Any updates are approved by the firm's Management Committee and communicated to the team. Where necessary, this is accompanied by a session to highlight significant changes.

- **Date on which the governing body of the financial market participant approved those policies**

Responsible Investment Policy – March 2022*

Responsible Investment implementation handbook – April 2022*

** Date of most recent version approval, at the time of disclosure*

- **How the responsibility for the implementation of those policies within organisational strategies and procedures is allocated**

Arjun's Management Committee oversees the implementation of the responsible investment policy and implementation handbook, with executive responsibility delegated to Peter Antolik (board member, COO and Head of Asset Management). Updates to policies or practices are approved by the Management Committee.

Peter is supported by an in-house Head of ESG, who is a subject matter specialist and responsible for overseeing the overall development of ESG practices, including the identification and prioritisation of PAIs, the specification and procurement of external due diligence, and engagement with Asset Management teams and Investee Companies.

Arjun has a working group, led by the Head of ESG, and comprising senior members of the team working across all areas of the business, including Peter Antolik. 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 regular updates to Arjun's Management Committee.

Beyond this, every member of the investment and asset management team is responsible for the implementation of Arjun's responsible investment policy, with strong governance structures in place to support this. This includes the integration of sustainability factors in staff remuneration (see SFDR Article 5 disclosure).

- **The methodologies to select the indicators referred to in [4]Article 6(1)(a), (b) and (c) of the RTS**

Due to the diverse nature of infrastructure assets, this is dealt with on a case-by-case basis, following internal discussion and a consideration of the relevant options.

- **The methodologies to identify and assess the principal adverse impacts referred to in Article 6(1)**

As noted above, this is done in the due diligence conducted at the outset, when a potential new investment is considered. It is done via a proprietary ESG Deal Screen Tool that we have developed internally and that is used in the consideration of all potential investments.

- **An explanation of how those methodologies take into account the probability of occurrence and the severity of those principal adverse impacts, including their potentially irremediable character**

Due to the diverse nature of infrastructure assets, this is done on a case-by-case basis as the relevant member of the team steps through the various stages of the due diligence process, completing relevant questionnaires as part of our ESG Deal Screen Tool, and conducting their desk-based or full due diligence enquiries.

[4] Article 6(1) of the RTS requires relevant firms to complete Table 1 plus add: *"[point] (a) information on one or more additional climate and other environment-related indicators, as set out in Table 2 of Annex I [of the RTS]; [point] (b) information on one or more additional indicators for social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, as set out in Table 3 of Annex I; [point] (c) information on any other indicators used to identify and assess additional principal adverse impacts on a sustainability factor."*

- **Any associated margin of error within the methodologies referred to above, with an explanation of that margin**

Arjun benefits from an in-depth understanding of our infrastructure sectors, as well as a trusted network of external expert advisors. This helps ensure that the most material PAIs are identified for each prospective investment.

In terms of PAI data, this is collected for in-scope investments and critically reviewed by our in-house ESG specialist. ESG sessions are regularly held between our Head of ESG and Asset Manager. These sessions include a discussion on the PAI data received, including missing or potentially erroneous data (for instance, carbon emissions which are significantly higher or lower than anticipated). The Asset Manager is then tasked with following up on data completion and quality issues, prior to the next ESG review session.

Where required, external advisors are appointed to work with the investee company management teams to improve data collection and quality.

- **Data sources used**

Various sources may be used in the deployment of the approach set out above. This includes the following by way of example:

  - Information provided by the management team of an investee company, the vendor and/or their advisers – e.g. in a due diligence room or in response to a questionnaire
  - Information provided via meetings or calls with the management team of an investee company, the vendor and/or their advisors
  - A bespoke report we may commission from an adviser we appoint to assist us in the due diligence process (legal, financial, technical, environmental etc.)
  - A Climate Risk and Vulnerability Assessment (howsoever titled) made available by the vendor as part of the due diligence process. In this case, we may also appoint an advisor to review such a document and comment on the robustness of the assessment, the significant findings, and the potential implications
  - Publicly available information such as Annual Reports or Sustainability Reports (howsoever titled) published by the company.
  - Following an acquisition, management information and reports provided by the investee company

- **Where information relating to any of the indicators used is not readily available, details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions**

This is dealt with on a case-by-case basis at present, with the Management Committee determining the appropriate approach based on the circumstances at hand. However, this subject will be kept under review as our approach evolves.

**Engagement policies**

- **Brief summaries of the engagement policies referred to in Article 3g of Directive 2007/36/EC (the Shareholder Rights Directive or SRD)**

Not applicable.

Although Arjun supports the principles underlying the Shareholder Rights Directive, its requirements on engagement policies and related matters are not directly applicable to Arjun, as Arjun does not make investments in shares traded on an EU regulated market on behalf of its funds/clients.

- **Brief summaries of any other engagement policies to reduce principal adverse impacts**

As a direct investor in our investee companies, we are represented at board level, and engaged with the management teams of our investee companies. We regularly monitor and engage across all aspects of the businesses operation, including ESG. This ranges from requiring specific ESG policies to be approved at board level, requiring that material ESG matters are discussed at board level, and agreeing asset-level ESG metrics, Key Performance Indicators and initiatives.

The nature of engagement and ESG requirements is business/sector-specific, also taking into account our ownership and control position. Where we are not 100% owners, we engage with co-investors to effect positive influence with regards to the management of ESG risk, and delivery of ESG initiatives to deliver shareholder value.

- **Description of the indicators for adverse impacts considered in the engagement policies referred to above**

The specific indicators are company/sector-specific. However, for all in-scope investments, we require data reporting across the mandatory PAIs for reporting under SFDR.

- **Description as to how those engagement policies will be adapted where there is no reduction of the principal adverse impacts over more than one period reported on**

Where there is no reduction of the PAIs, we engage with investee companies to explore potential commercially viable initiatives. This is reviewed regularly, at least annually, as the dynamic nature of the market may mean that previously rejected initiatives may become commercially viable. Such cost-benefit analysis considers viability in the medium- to long-term, aligning with our investor preference of being a long-term investor.

**References to international standards**

- **Describe whether and to what extent the firm adheres to responsible business conduct codes and internationally recognised standards for due diligence and reporting**

***Responsible Business Codes***

Arjun is in the process of putting in place the policies required for the company to be compliant with the OECD's Guidelines For Multinational Enterprises and the UN's Guiding Principles on Business and Human Rights. This is intended to ensure the firm maintain the highest ESG standards internally.

In addition, we are a signatory to the UN PRI, and actively attempt to adhere to the following UN PRI principles:

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

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

As a member of the Long-Term Infrastructure Investors Association (**LTIIA**) and the Global Infrastructure Investors Association (**GIIA**), we also 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.

***Due Diligence***

Our due diligence process follows standard market practice, and is built on the following key steps:

1. An initial deal screen based on readily available information. This is used to confirm compatibility with our exclusion policy and investment mandates, and form a broad view on the potential investment- and sector-level risks and opportunities.
2. In the event that it is decided to pursue an opportunity, a high-level due diligence is completed, based on vendor supplied information, publicly available data, and discussions with the target company management. A proprietary ESG Deal Screen Tool is used to determine material ESG factors. This materiality assessment is driven by our sector knowledge and experience, but also, built upon internationally recognised frameworks, including:

   - International Finance Corporation *Performance Standards*, 2012
   - World Bank Group, *Environment, Health & Safety Guidelines*, various sector-specific guidelines
   - Equator Principles 4
   - Sustainability Accounting Standards Board (SASB) *Materiality Map*
3. Where an investment proceeds beyond the high-level due diligence stage, a full due diligence is executed with the assistance of external advisors, including ESG, technical, commercial and legal, as required. Advisors are selected on the bases of sector and country experience and expertise. Typically, the due diligence would include management meetings, Q&A and site visits to 'ground truth' our understanding of the ESG risks and opportunities.

At each stage of the due diligence, the key findings are documented under our Investment Committee presentations.

- **Description as to degree of alignment with the objectives of the Paris Agreement**

Arjun 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.

- **Description of indicators used to consider the principal adverse impacts on sustainability factors referred to in Article 6(1) of the RTS that measure the adherence or alignment referred to above**

Arjun primarily consider the greenhouse gas (GHG) emission principal adverse impact indicators, comprising:

- GHG emissions (scope 1, scope 2, and as appropriate, scope 3)
- Carbon footprint
- GHG intensity of investee companies
- Exposure to companies active in the fossil fuel sector
- Share of non-renewable energy consumption and production
- Energy consumption intensity per high impact climate sector

- **Description of methodology and data used to measure the adherence or alignment referred to above, including a description of the scope of coverage, data sources, and how the methodology used forecasts the principal adverse impacts of investee companies**

The data is requested from each in-scope portfolio company. This is compiled by the company, and where required, external advisors to assist in establishing a process aligned with the Greenhouse Gas Protocol (an internationally recognised methodology for measuring and reporting greenhouse gas data). Intensity metrics can be developed using wider company data, such as revenue or unit of product (such as MWh of electricity). Forecasting can broadly be achieved from extrapolating the intensity metrics.

- **Explanation as to whether a forward-looking climate scenario is used, and, if so, the name and provider of that scenario and when it was designed**

Climate scenario analysis is completed using a leading third-party developed software tool. This tool is used to forecast potential physical climate risks – such as heat stress and drought – across multiple decarbonisation pathways and time horizons. Earthscan can assess risk at asset, investee company, or product-level portfolios. Typically, forward looking climate scenarios include:

- A ‘business as usual’ scenario (SSP5-8.5), where emissions continue to rise over the 21st century
- Emissions peak in 2040 (SSP2-4.5), where emissions do not increase beyond 2040
- Paris aligned (SSP1-2.6), where emissions are aligned with the Paris agreement

Subject to the specific investment strategy for expected lifetime of the asset, the above scenarios are typically considered on a 10 year and 30 year horizon.

- **Where no forward-looking climate scenario is used, an explanation of why the firm considers forward-looking climate scenarios to be irrelevant**

n/a

**Historical comparison**

To be provided by 30 June 2024

*Table 2*

**Additional climate and other environment-related indicators**

| Adverse sustainability impact | Adverse impact on sustainability factors (qualitative or quantitative) | Metric |
|---|---|---|
| To be provided by 30 June 2023 | | |

*Table 3*

**Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters**

| INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | |
|---|---|---|
| **Adverse sustainability impact** | **Adverse impact on sustainability factors (qualitative or quantitative)** | **Metric** |
| To be provided by 30 June 2023 | | |

Please note: Any relevant comments and disclosures in this document that relate to SFDR are made, strictly speaking, "as if" that regulation applied to us. However, this may not be the case at the outset, although the position may change over time. No reliance should therefore be placed on this. For more information as to whether we may or may not be subject to such regulation please contact us.

Please also note that this document may be updated from time to time in our discretion.

*This page was last updated on 30 June 2022.*