Strictly private & confidential

ARJUN Infrastructure

Transparency of sustainability risk policies

30 June 2022

Information about policies on the integration of sustainability risks in investment decision-making

This disclosure is made for the purposes of Article 3(1) of EU Regulation 2019/2088, known as the Sustainable Finance Disclosure Regulation or SFDR. It is made by Arjun Infrastructure Partners Limited (**Arjun** or **us/we**). Article 3(1) of SFDR requires a relevant firm to publish on its website information about its policies on the integration of sustainability risks in its investment decision-making process. "Sustainability risk" is defined in SFDR as "*an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of [an] investment*". The term may be used interchangeably with the term environmental, social and governance (**ESG**) risk.

Key information about our approach to this matter is as follows:

- We have robust policies and processes in place within our business to identify relevant and material risks and take these into account before an investment decision is made. This includes ESG risk.

- In particular, when making investment decisions, we consider whether and to what extent ESG risks might have a financially material impact. This is considered alongside traditional financial criteria such as credit risk, and standard risks such as execution risk and operational risk.

- Overall, this approach reflects our broader view that responsible investment practices and comprehensive consideration of ESG factors at all stages of the investment lifecycle enhance both value preservation and sustainable value creation. This is particularly important given our investors' long-term investment horizon.

- By way of example, at the outset of evaluating an investment opportunity, ESG issues are identified and assessed as relevant to the asset being evaluated. This is done via a proprietary ESG Deal Screen Tool that we have developed internally. This tool is used throughout the investment process to:

    - provide a systematic approach to ESG across our operations, as well as a centralised framework where lessons learned and improvements can be made;
    - act as a framework for identifying ESG issues (both risks and opportunities) related to an investment opportunity being considered;
    - help assess the materiality of such issues and the scoping of due diligence requirements; and
    - promote alignment with the requirements of the Taskforce on Climate-related Financial Disclosures (**TCFD**).

- A key initial stage of the tool involves an ESG Screening Questionnaire:

    - This includes questions directed to ensuring we identify potential ESG risk factors resulting from the asset location and/or potential supply chain issues in high-risk locations or sectors. It also contains questions designed to encourage a broad consideration of climate risks, including physical and transitional risk, to inform our view of the asset's vulnerability and resilience.

    - This stage also involves a screen against a list of excluded investment types/industries/sectors (our 'exclusion list'). This list reflects circumstances in which investments will not be made based on our ESG related investment values, beliefs or outlook and/or ESG related preferences expressed by our clients.

- If a decision is taken to proceed, the next stage of our investment process is to complete an initial desktop due diligence based on information made available by the vendor, publicly available data, and discussions with management, the vendor and/or their advisors. For example, in this phase we:

    - conduct an ESG materiality assessment and prepare a summary of key ESG issues relevant to the business;
    - provide an overview of the ESG risks and opportunities which have been identified during the initial due diligence;

  - provide a commentary on potential mitigants and/or value creation opportunities related to the identified ESG issues (to the extent possible at this stage); and
  - provide a plan for addressing ESG issues within the full due diligence scope of work. This can involve appointing an ESG adviser and/or including ESG-related items in the scope of work of other advisers (e.g. legal or technical).

  This information is presented within the broader deal pack and presented to Arjun's Investment Committee for consideration.

- If a decision to proceed is made, full due diligence, including ESG, is commissioned. The specific scope of work will be tailored to the material risk/opportunities of the business, also taking into account factors such as asset location, target ownership and control position, and asset maturity (including the nature of any development pipeline).

- This may involve a review of the internal policies and procedures of the relevant target company to enable us to consider the robustness of their internal framework on ESG related matters, such as environmental issues, employee relations, remuneration, tax compliance, anti-bribery and corruption, anti-money laundering, health and safety, etc.

- We may also engage third parties to conduct technical and ESG due diligence. In such cases, advisors are selected on the basis of their sector/asset/country experience, to provide external and independent analysis.

- We may also require an advisor to give a view as to the exposure of an asset to climate risk, including:

  - transitional climate risk, such as policy changes or shifts in consumer demand which may impact the business (both negatively and positively). This advice would be used to augment Arjun's in-house analysis and sector outlook, identify potential investment needs to meet foreseeable regulatory requirements, and determine the readiness and compatibility of the business for a low-carbon economy; and.

  - physical climate risk, such as heat stress, precipitation, drought and flooding. These risks are initially assessed by Arjun using specialist climate risk software, incorporating a range of future decarbonisation pathways and time horizons (a methodology termed 'scenario analysis'). In addition, a Climate Risk and Vulnerability Assessment (howsoever titled) may be made available by the vendor as part of the due diligence process. In this case, Arjun and our appointed advisors will review the document and comment on the robustness of the assessment, the significant findings, and the potential risks (e.g. asset availability, increased CAPEX/OPEX etc).

- Once the detailed due diligence is complete, all material issues identified and evaluated are documented, and a decision is made whether to proceed with the investment or not. This decision is made by our Investment Committee on the basis of all relevant factors and risks, including those relating to ESG. Key to this phase is a need to ensure the Investment Committee has a robust understanding as to the extent of any ESG risks, how they could/should be monitored, managed and mitigated in practice, and (overall) how sustainability risks may affect performance or returns/value.

- Where a decision is made to proceed, a plan is put in place for mitigating and managing any relevant and material ESG risks identified during the due diligence progress. For example:

  - the plan may set out a series of specific steps to be taken in the first 100 days after our investment is made; and
  - the plan may also set out formal rights we wish to request as part of our transaction execution – e.g. rights to collect ESG related data, linking portfolio management remuneration to ESG related

KPIs and objectives, implementing ESG related governance changes, and implementing defined ESG initiatives.

- Once invested, we take an active approach in relation to the monitoring and management of ESG risk. 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.
- 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.

Our policies and procedures are subject to ongoing review and improvement, incorporating lessons learned and developments in terms of industry best practice. This is particularly important in relation to ESG risk, given that it is a rapidly evolving and dynamic area. This page may therefore be updated or revised from time to time to ensure it accurately reflects our practices.

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.

This page was last updated on [30 June 2022].