SUSTAINABLE INVESTING IN INFRASTRUCTURE

APRIL 2019
FORESIGHT GROUP

Since its establishment in 1984, Foresight has grown from its origins as a technology focused venture capital firm to become a leading independent infrastructure and private equity investment manager with over £2.5 billion of assets under management.

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Investing for a smarter future

Investing for a smarter future is what Foresight has been doing for more than 30 years.

To us, a smarter future means thinking both about the way we invest our clients’ capital as well as the impact it has, be it diverting waste from landfill to convert into renewable energy; managing solar plants and wind turbines to power industry with up to 100% renewable energy; funding government mandated roll-outs of smart meters; acquiring utility scale battery storage assets to balance the grid; supporting small businesses with growth capital and providing attractive investment opportunities for some of the largest and most demanding of institutional investors.

Investing for a smarter future is a mission that guides everything we do as we continuously search for ways to create a better, smarter future for the world in which we live.
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Executive Summary

Sustainability lies at the heart of Foresight’s business. We believe that investing responsibly, seeking to make a positive social and environmental impact, is critical to long-term success. This paper sets out how Foresight interprets sustainability and defines Sustainable Infrastructure. It covers how sustainability has shaped our principles and how we conduct ourselves and, in particular, how the United Nations Sustainable Development Goals (SDGs) and other Environmental, Social and Governance (ESG) considerations are embedded throughout our Infrastructure investment process and asset management procedures through our Sustainability Evaluation Criteria.

The first part of this paper articulates our interpretation of Sustainability and Sustainable Investing and sets the context for how we define Sustainable Infrastructure. These definitions allow us to set the taxonomy which supports our strategy and specific approaches.

In the second section we set out our Sustainability Principles and explain how their application through our perception, actions and will underpins our ability to successfully execute our investment strategies.

Sustainability is fundamental in framing the culture we set for our people and how we engage with stakeholders outside our firm. The third section is dedicated to Foresight Group’s Commitment to Sustainability and describes the Group’s mission, corporate culture and practical management of sustainability. This includes governance arrangements, policies, the Group’s ESG footprint as well as management of Foresight’s human capital. We recognise that our position in a global network of organisations focused on addressing the sustainability challenge obliges us to continually collaborate and engage externally to learn, grow, improve and influence.

The final section of this paper covers Foresight’s Approach to Sustainable Infrastructure Investing. We set out our long-term investment vision that ensures our strategies are sustainability-led and explain how, once we have set a strategy, all investments undertaken:

- Meet our definition of Sustainable Infrastructure;
- Are evaluated in accordance with our five Sustainability Evaluation Criteria; and
- Are subsequently managed in a way consistent with best practice and our Sustainability Principles.

In this section we expand on how Foresight uses the United Nations SDGs as a lens to drive our investment process and how we consider climate change risks and opportunities, as well as the resilience of our investments. It details ongoing monitoring practices employed to benchmark our investments and ensure our approach is consistently being improved, as well as how the sustainability related data from portfolios is reported in a transparent way to relevant stakeholders.
1: Defining Sustainability and Sustainable Infrastructure

Set out below is how we define key sustainability related terms. In doing this we note that such terms are, by their nature, somewhat subjective – the following therefore represents our interpretation of each term.

SUSTAINABILITY, SUSTAINABLE DEVELOPMENT AND SUSTAINABLE INVESTING

We believe that Sustainability is a mode of thinking that is applied by making viable and supportable decisions that will offer continued, long-term societal and environmental benefits. Sustainable Development applies this concept to economic development that is conducted without the depletion of natural resources. We believe the Brundtland definition of Sustainable Development is useful in this regard: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

An advantage of this definition over others such as ‘planet, people and profit’ is that it provides a set of criteria which can be used to assess whether an action is sustainable because the definition only accepts activities which contribute towards a system that is sustainable into perpetuity. This means that the investment itself must either constitute a viable component of, or help facilitate the transition to, a sustainable global economy. This contrasts with other definitions which may simply promote ‘environmentally friendly’ behaviour.

The concept of ‘viability into perpetuity’ provides an objective test for assessing whether an activity is sustainable; an activity is either consistent with a system viable into perpetuity or it is not. By referring to meeting the needs of people in a holistic sense, the definition forces consideration of the environmental, social, economic and cultural aspects of sustainability.

Sustainable Investing entails both working within environmental limits and ensuring financial sustainability. By definition, an asset or a company must be able to invest into the long-term in order to be able to provide for future generations’ needs.

DEFINING SUSTAINABLE INFRASTRUCTURE

We believe that for a project to be classified as Sustainable Infrastructure it should meet the definition of Sustainable Development set out above, in both financial and non-financial respects in accordance with the following definition set out by Bhattacharya, Oppenheim and Stern in the 2015 Brookings Report:

“Sustainable Infrastructure is infrastructure that is socially, economically and environmentally sustainable.”

It should be low carbon, resilient in the face of changing climate and, ultimately, help future generations. Sustainable infrastructure therefore should help meet the SDGs and contribute to the goals of the Paris Agreement of 2015.

1 Brundtland Commission, “Our Common Future”, 1987
2: Sustainability Principles

Our mission, investing for a smarter future, requires us to develop and execute compelling investment strategies, underpinned by long-term thinking and analysis of macro-trends shaping our world, and to invest in a manner that supports sustainable economic and social development. The contribution we make to society on a wider basis is an explicit objective based on the six Sustainability Principles that underpin our investment strategy.

1. Long-Term Value Creation and Transparency

We see long-term financial value creation as inherently linked to long-term societal benefits, as measured in ESG or impact investing terms. We measure our investments’ wider value through the application of our Sustainable Development Contribution, which is explained in the fourth section of this paper. We believe in the importance of accountability and disclosure, and endeavour to be transparent in all our actions.

2. Collaboration, Open and Constructive Dialogue and Diversity of Perspectives

We believe that constructive dialogue is fundamental in setting and executing a successful investment strategy, and in managing our wider business. This is seen in how we conduct our Investment Committee meetings, where dialogue is open and constructive and risks are discussed in a fair and balanced manner. Of further importance in this respect is diversity – diversity of perspectives, of skillsets and approaches to work – a fact which is reflected in our diversity policy.

3. Critical Self-Reflection and Continual Learning

We believe that our progress in respect of sustainability, as well as our progress as a leading investment management firm more broadly, is an ongoing journey. Part of this is a recognition that we can always improve and always learn. We seek to identify our shortcomings and embrace any opportunity to learn from others, both personally and as individuals.

4. Respect and Awareness of Foresight’s Role in a Larger System

Respect for each other within Foresight, as well as respect for our stakeholders, is fundamental to our long-term success. Stakeholders in this respect include our investors and customers, employees, developers, suppliers and advisors, governments and regulatory bodies, and the communities in which our investments are located. Without such respect we recognise that we will lose our ‘licence to operate’, whether that be through diminishing investor confidence or in a lack of acceptance by local communities. Inherent in this is a recognition of the fact that Foresight is a component of a much wider system of capital flows and global society as a whole.

To succeed in our ambitions, we have faith in the processes we develop and apply and the manner in which we adhere to them. These processes underpin our investment activities, from origination, where processes ensure efficient identification and screening of prospective investments, to ultimate investment decision making. They are also fundamental to our active asset management and stewardship approach. Understanding that there is a process and focusing our energy and attention on executing the process effectively enables us to focus our activities each day without distraction.

Perhaps our most fundamental value is an unwavering commitment to carry on, no matter how challenging circumstances might become. Above all, we ‘stick at it’.
AT FORESIGHT WE ENDEAVOUR TO APPLY THESE SUSTAINABILITY PRINCIPLES TO OUR WORK IN THREE WAYS:

We believe that our Sustainability Principles and their application through our perception, actions and will underpin our ability to execute our Sustainable Infrastructure investment strategy successfully, as well as manage the wider Foresight business in a sustainable manner.

- We seek to develop a deep understanding or perception of a particular situation or dynamic and its implications for our strategy. In the rapidly evolving world of new infrastructure investing for instance, this may relate to consideration of how different sectors increasingly interact. An example of this is the interaction between future clean energy investments and the transport sector, due to the advent of electric vehicles. In order to make sense of these complex issues we apply our collaborative approach (in the form of open and inquisitive dialogue and consultation with third party experts) and our drive for learning.

- Having set a course, we then direct our actions accordingly. In sustainable infrastructure investing this is manifest both in our investing activities, and our approach to active asset management and stewardship. Persistence is a prerequisite virtue for originating investments, and critical reflection is a necessity for filtering investments for quality. In our approach to active asset management and stewardship, persistence is a requirement for our day-to-day activities, while we must build resilience into our underlying assets.

- While we act to maximise our chances of success, we recognise that many factors are not within our control. What remains within our control is our choices and our attitudes and therefore above all else we exert our will in a manner consistent with our principles.
3: Commitment to Sustainability

While consideration of sustainability issues is integral to what we do at Foresight – the development and execution of compelling long-term investment strategies, in particular with respect to green investing – it also underpins how we approach our work on a wider basis. Our business is dependent on the support of a wide variety of stakeholders including our investors, employees, the communities within which our investments are undertaken and society at a broader level. To maintain our social licence to operate we aspire to the highest standards of integrity and diligence.

CORPORATE PHILOSOPHY

At Foresight we believe that investment firms can and should support the transition to a sustainable future and a green economy. We identify opportunities to bring innovative products to market to stimulate growth in sustainable finance solutions and to support our clients and society in making this transition.

The Group’s mission statement is ‘Investing for a smarter future’, and we communicate this as seeking to create a better, more sustainable future for the world in which we live. The organisational values are set at the highest level by the Group’s Executive Committee and case studies of this strategy are made available publicly on the ‘Investing for a smarter future’ page of our website.

INDUSTRY AFFILIATIONS

Foresight recognises the importance of aligning itself with external sustainability or ESG-focused organisations. These can both help inform the Group of new developments but also, through independent review, provide third party affirmation of Foresight’s commitments and practices.

- Foresight has been a member of the UK Sustainable Investment and Finance Association since 2009.
- Foresight has been a member of the Climate Bond Initiative since 2018.
- Foresight participated in the GRESB Infrastructure ESG Assessment in 2018, submitting one of our solar assets that we feel is representative of our portfolio as a whole. Foresight also sits on the GRESB Infrastructure Benchmark Committee, which helps to shape the assessment for future iterations.

The results of our 2018 GRESB Infrastructure ESG Assessment are as follows:

<table>
<thead>
<tr>
<th>Module</th>
<th>2018 Score</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>61/100</td>
<td>52/100</td>
</tr>
<tr>
<td>Social</td>
<td>71/100</td>
<td>60/100</td>
</tr>
<tr>
<td>Governance</td>
<td>47/100</td>
<td>46/100</td>
</tr>
</tbody>
</table>

- Foresight monitors a number of other standards and guidelines which may be adopted where applicable to its investment processes and procedures, including the BVCA’s Responsible Investment Toolkit and the Invest Europe Handbook of Professional Standards.
• Foresight is a working partner of the Solar Trade Association’s Large-Scale Asset Management Working Group and a signatory to the Solar Farm Land Management Charter. The charter ensures that solar farms are managed in a manner that maximises the agricultural, landscaping, biodiversity and wildlife potential, which can also contribute to lowering maintenance costs and enhancing security.

• Foresight funds have been accredited by SRI Services and can be found on the Fund EcoMarket database.

• Foresight has been a signatory to the United Nations backed Principles for Responsible Investment (PRI) since 2013 and has completed their ESG Due Diligence Questionnaire for Infrastructure, which is available on request. The UNPRI is a globally recognised voluntary framework concerned with the incorporation of ESG considerations into the investment decision making process and provides a basis for potential and existing investors to judge the quality of a company’s ESG processes and positioning within an industry sector.

As a signatory, Foresight submits an annual assessment to the UNPRI as requested by the guidelines.

The PRI’s six core principles are set out below:

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; and
6. We will each report on our activities and progress towards implementing the Principles.

The results of our 2018 UNPRI Assessment are as follows:

<table>
<thead>
<tr>
<th>Module</th>
<th>2018 Score</th>
<th>2018 Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy and Governance</td>
<td>26/30</td>
<td>A</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>23/30</td>
<td>A</td>
</tr>
<tr>
<td>Private Equity</td>
<td>21/33</td>
<td>B</td>
</tr>
</tbody>
</table>

**GOVERNANCE**

We firmly believe that sustainability incorporates more than just ESG, as ideas pertaining to long-term resilience, stability and viability are all elemental in being able to achieve true sustainability. As such, Foresight has a designated Sustainability and ESG Committee responsible for shaping and steering the firm’s approach to sustainability, which is captured in the company-wide Sustainability and ESG Policy. An important part of their remit is to develop and review the Group’s sustainability vision and strategy, as well as ensuring that the ESG considerations and frameworks that are incorporated into the investment process and asset management activities are appropriate and market-leading.
Meeting once a month or on an ad-hoc basis as required, the Sustainability and ESG Committee includes senior leadership from the key departments at Foresight to ensure its influence and selected views have reach across the whole business.

Sustainability issues are not limited to this committee but are also discussed at all other committee meetings (Executive Committee, Investment Committee, Risk Committee, Health and Safety Committee, IT Committee).

Corporate Social Responsibility (CSR) is considered as a sub-section of the Sustainability and ESG Committee’s responsibilities, pursuing initiatives to promote social responsibility in Foresight’s corporate activities.

Foresight implements CSR through a comprehensive set of programmes and practices that are integrated into Foresight’s business operations and decision-making processes.

As would be expected, Foresight has a number of wider policies in place covering a range of governance related issues. These include: bribery and corruption, data protection and cyber security, whistleblowing and fraud.

**GREEN INNOVATION AND LEADERSHIP**

As one of the first external fund managers appointed by the UK Green Investment Bank (GIB) in 2012, Foresight Group worked collaboratively with the GIB to help shape the green impact reporting guidelines that now form part of the Green Investment Handbook – a practical guide to green investing and reporting that is helping to bring greater consistency and standardisation to green finance and is being promoted and adopted for use internationally.

Foresight has a track record of designing innovative products to deliver sustainable investments, notable examples being:

- The largest dedicated solar investment trust listed on the London Stock Exchange: Foresight Solar Fund Limited with a market capitalisation of c. £550m;
- Structuring the first investment grade renewable energy bond in Italy;
- Launching a first-of-its-kind Green Bond Fund that lends to energy efficiency and renewable energy projects;
- Being an early investor in smart meters and energy storage; and
- Structuring innovative corporate Power Purchase Agreements (PPAs) and being one of the first movers into unsubsidised renewables.

**EMPLOYEE ALIGNMENT WITH SUSTAINABILITY**

As sustainability is a central theme in our primary business activities, the majority of staff members are required to implement elements of our sustainability policies within their role. This varies depending upon their function (e.g. whether a member of the Investment, Investor Relations or Asset Management teams), but forms part of their overall performance assessment and may impact their discretionary bonus.

To ensure best practice and alignment, all employees sit an online regulatory compliance test on an annual basis, with new joiners obliged to complete this within three months of joining. In 2018 employees with relevant ESG roles were requested to complete a separate ESG test, which is updated and run annually.
Foresight Group regularly conducts formal training for staff in sustainability related issues, including running Best Practice sessions.

**MANAGEMENT OF FORESIGHT’S ESG FOOTPRINT**

Many of Foresight’s investments deliver specific environmental benefits such as low carbon energy. Foresight is conscious that the office-based activities and travel commitments of its staff also create environmental and social impacts which must be monitored and controlled as part of a sustainability management programme. Foresight’s Sustainability and ESG Committee oversees our performance in this regard.

Group participation in numerous initiatives with positive ESG impacts is encouraged widely (e.g. World Earth Day, Recycling Week, Earth Hour). Recycling statistics for the Group are prominently displayed in communal areas.

**MANAGEMENT OF FORESIGHT’S HUMAN CAPITAL**

Foresight has recruited a diverse, talented team of employees. In order to maintain motivation and to retain such people, Foresight must provide an environment in which people can interact with each other and form meaningful working relationships and an environment in which people can grow as individuals. To support this, we look to engage in various diversity initiatives, such as being a signatory of HM Treasury’s Women in Finance Charter.

Members of Foresight Group are bound by a number of policies and procedures, drafted to cover the Group, its subsidiaries and its associated entities. Foresight Group also ensures that all contractors are audited and meet industry standards with regards to health and safety and working conditions.

**FORESIGHT’S PLACE WITHIN A GLOBAL SUSTAINABILITY NETWORK**

To maintain our position as a leader in sustainability, we must uphold our place in the global network of companies, public bodies, non-government organisations and other entities which are focussed on addressing the challenge of sustainability. Recognition that we are just one component in a much wider ecosystem is evident in our participation in external initiatives such as thought-leadership papers relating to sustainability, alongside our peers and advisors.

**INDUSTRY COLLABORATION, CONTRIBUTION AND PROMOTION**

Foresight actively engages with its peers, public policy makers and standard setters through dialogue and participation in open consultations and working groups linked to sustainability. Notable examples of this are:

- Co-authoring a 2015 Report with Lightsource and KPMG on the Decentralised Energy Transition, presented in the House of Lords;
- Being a member of the GRESB Infrastructure Benchmark Committee;
- Contributing to Ellen MacArthur’s Circular Economy report;
- Participation in numerous Open Consultations with the UK Government (DECC / BEIS / HMRC);
• Contributing to the Patient Capital Review;
• Being an active member on several working groups for the UK Government’s Green Finance Task Force, established in September 2017, to deliver ambitious recommendations to inform, advance and set the direction of travel for long-term policy development which can support the acceleration of investment in the transition to a low carbon economy;
• Speaking regularly at conferences on themes around low carbon energy transition, sustainability and ESG; and
• Contributing to articles and publications on the theme of the low carbon transition.

We endeavour to be aware of new initiatives which are relevant to our sustainability policies and performance and implement standards set wherever possible. For instance, we seek to follow guidance from the Task Force on Climate-related Financial Disclosures (TCFD).

Furthermore, we actively seek to go beyond compliance and be part of the dialogue involved in establishing new standards.
4: Approach to Sustainable Infrastructure Investing

Sustainability is at the heart of Foresight’s Infrastructure Team’s investment strategy and forms an integral part of our day-to-day decision making and investment management processes. Foresight’s Infrastructure Team have invested over £2bn into clean energy projects worldwide through a number of funds raised from both institutional and retail clients. The Infrastructure Team currently manage over 1.4 GW of renewable generation assets spread across solar, wind and energy from waste and have investments that contribute to the low carbon transition in sectors such as battery storage, flexible generation, energy efficiency and smart meters.

There are four sub-components to Foresight’s Sustainable Infrastructure Investment Strategy:

1. Establishing sustainability-led investment strategies, informed by our Sustainability Principles and the consideration of climate change risks and opportunities.
2. Incorporating our Sustainability Evaluation Criteria throughout the investment lifecycle.
3. Ongoing monitoring to ensure compliance with the Sustainability Evaluation Criteria as well as sustainable performance optimisation through Active Asset Management.
4. Transparent reporting to all relevant stakeholders.

SETTING THE SUSTAINABLE INFRASTRUCTURE INVESTMENT STRATEGY

Foresight has a long-term investing vision. We believe that key themes which will shape investment returns in the twenty-first century include:

- Resource scarcity in respect of ‘natural capital’ such as usable energy, productive land, a functioning atmosphere and clean water;
- Increasing focus on economic and social development, social inclusion, equality and diversity; and
- Continued evolution of business and investment governance standards to safeguard the interests of all stakeholders.

As noted in the Executive Summary and explained further in the section below, we align our strategies with the Sustainable Development Goals and with decarbonisation targets such as those set in the Paris Agreement of 2015.

As a result, our strategy seeks to recognise environmental and societal limits. We endeavour to work within these parameters and positively reinforce environmental and social outcomes through explicit sustainability and ESG objectives embedded into funds.

This drives our investment approach and our Sustainable Infrastructure Investment Strategy to ensure our investing and fund strategies are explicitly sustainability led.
CLIMATE CHANGE RISK AND RESILIENCE

Infrastructure assets typically have long operational lifetimes and as such are more sensitive to climate variations over the decades of their use. Evidence continues to suggest a direct link between human causes of climate change and the recently experienced extreme weather conditions. As such, taking actions to mitigate climate change and employing measures that enable adaptation to its associated trends, must be done hand in hand.

In response to this, climate change has been an instrumental theme in shaping Foresight’s infrastructure investment policy, processes and strategy. We recognise there are both physical and transition risks and opportunities associated with investing in infrastructure and in energy assets in particular.

There are still significant challenges in modelling transition risk and performing accurate scenario analysis and stress-testing of portfolios, particularly given the lack of data for private unlisted assets. Foresight is actively engaging with ESG consultants and academic researchers to work to develop the appropriate tools to conduct this analysis for its investment strategies.

Particular climate change research sources and tools that Foresight has reviewed and guidance we follow includes:

- Recommendations of the FSB Task Force on Climate-related Financial Disclosures (TCFD).
- PRI Guide on TCFD Recommendations for Asset Owners.
- 2Dii / ET Risk Project.
- Grantham Research Institute on Climate Change and the Environment Transition Pathway Initiative.

Foresight is increasingly contracting directly with corporate entities for the offtake of the electricity generated by its assets, and the Transition Pathway Initiative in particular has allowed the Group to assess carbon management quality and carbon performance when structuring PPAs.

Consideration of our assets’ resilience to the physical effects of climate change is undertaken as part of the Sustainable Evaluation Criteria described below.

SUSTAINABILITY EVALUATION CRITERIA

To ensure that all investments undertaken meet our definition of Sustainable Infrastructure, they are evaluated in accordance with Foresight’s Sustainability Evaluation Criteria: five central themes that we believe cover the key areas of sustainability (and therefore ESG) to be assessed. These are subsequently managed in a way consistent with best practice and our Sustainability Principles.

<table>
<thead>
<tr>
<th>Foresight’s Five Criteria for Sustainable Infrastructure</th>
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<tbody>
<tr>
<td>1. Sustainable Development Contribution</td>
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<td>2. Environmental Footprint</td>
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<td>3. Social Engagement</td>
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<tr>
<td>4. Governance</td>
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<tr>
<td>5. Third Party Interactions</td>
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</table>
Using the five criteria as a guide, all investment papers will include a review of the sustainable elements of a project to be reviewed and commented on by the Investment Committee, with the level of detail becoming more granular as an opportunity progresses through the investment process.

Each prospective investment will be evaluated and scored against a set of pre-determined factors that sit under the five criteria. Dependent on the asset class, the important quantifiable data points and an appropriate reporting matrix are agreed beforehand. Once a project completes and is onboarded, this matrix will also be used as the framework for the ongoing performance monitoring that the Asset Management team will report against on a regular basis.

The first assessment will be produced as part of the pre-investment due diligence and a rating from 1-5 recorded for each factor, with 1 being rated lowest in terms of performance, and 5 the highest. This process will continue throughout the asset’s lifecycle.

Foresight will gather information to complete this scoring from a variety of sustainability due diligence tools, for example, a supplier due diligence questionnaire which is given to key project counterparties to complete in order to gather critical information, such as their approach to governance. We will request access to policies that cover topics such as modern slavery, diversity promotion, employee growth and CSR. Other examples include expanding our advisor engagements to report in greater detail on community engagement during planning or the impact of the projects on local communities and their environment.

We explore each of the five criteria in more detail below, and list examples of what we would expect to measure in each.

1. SUSTAINABLE DEVELOPMENT CONTRIBUTION

Foresight’s long-term vision for its infrastructure investments has been driven by the opportunities resulting from the fundamental shift towards an increasingly decarbonised economy. Using the United Nations SDGs as a lens, we have focused our investment approach and established specific sustainable infrastructure strategies that are aligned to make a direct positive contribution.

In evaluating this criteria, the Investment Team will look at the following factors to derive the score:

- **Affordable and clean energy:** Does the project promote the development of clean and sustainable energy?

- **Industry, innovation and infrastructure:** Does the project invest into resilient and sustainable infrastructure, such as energy, transport and water resources? Does the project increase resource and energy efficiency?

- **Climate action:** Does the project positively contribute to reductions in greenhouse gases (GHGs)? Does the project contribute to national and international climate change targets? What is the direct contribution to carbon emissions from the project’s activities? Net positive or negative?

Examples of key measurable performance data to be collected at the due diligence stage include:

- Electricity produced from renewable energy sources;
- Households supplied with the energy generated by the project;
• GHG emissions and GHG emissions saved or avoided;
• Electricity generation capacity from conventional energy sources.

2. ENVIRONMENTAL FOOTPRINT
Separate to consideration of the Sustainable Development Contribution that an asset may generate – which is likely to be global in nature – it is also necessary to consider the localised environmental interactions of an investment. This includes assessment of potential environmental impacts such as emissions to air, land and water, effects on biodiversity and noise and light pollution. Analysis of the long-term climate resilience of a project – for example in respect of flood risk – is also a necessity.

In evaluating this criteria, the Investment Team will apply the following factors to derive the score:

• **Life on land**: Does the project protect, restore and promote the sustainable use of ecosystems, promote biodiversity and halt and reverse land degradation?
• **Species protection / promotion**: Has an Environmental Impact Assessment been carried out in respect of the project? What is the project’s impact on native / migrating species to site? Does the project have high rates of species mortality? Does the project promote or support wildlife at the site?
• **Feedstock sustainability**: Is the feedstock (if applicable) processed by the project in line with the sustainability criteria set out by the associated incentive scheme?
• **Waste management**: Does the project take steps to minimise waste production and maximise recycling? Does it make a positive contribution to landfill diversion?
• **Emissions, effluents and wastes from both normal and abnormal (e.g. accidental) conditions**: What are the outputs of the project, and how can any undesired outputs be mitigated or minimised?

Examples of key measurable performance data to be collected at the due diligence stage include:

• Amount of new planting undertaken as part of a project;
• Protection or establishment of species and wildlife on site (e.g. bat boxes, badger gates, bee keeping, sheep grazing).

3. SOCIAL ENGAGEMENT
Foresight is conscious of its role both in the local communities in which its assets operate and in its role as an employer and good corporate citizen.

In order to maintain its social licence to operate, Foresight believes that engagement and consultation with local stakeholders are important features of infrastructure projects at each stage of their lifecycle. As such, Foresight appoints a dedicated member of its Asset Management team to be responsible for local stakeholder engagement through, for example, attending local council meetings, organising educational visits to its projects from local schools, colleges, universities and politicians, and also contributing via community funds to local area projects.
In evaluating this criteria, the Investment Team will look at the following factors to derive the score:

- **Health and wellbeing**: Does the project take appropriate steps to protect the health and safety of its employees and any third party? Is it in compliance with all relevant Health & Safety legislation? Is there a risk of fines, penalties or regulatory intervention?
- **Local economic impact**: How much of the project’s inputs and supplies are sourced locally and what is the estimated spend? How much of the labour force comes from the local area?
- **Local social impact**: Is the project well screened from key vantage points? Does the project operate within noise restrictions? Does the project cause shadow flicker or interrupt TV signals, and if so how are these problems mitigated?
- **Community engagement**: Does the project take steps to manage impacts on the local population or to create positive effects through engagement with the local community? Are educational visits carried out to the project to promote the benefit of the assets?
- **Community benefits**: Does the project contribute to local community through investment in infrastructure / service provision for public benefit such as Section 106 Legal Agreements or community benefit payments in the UK?
- **Decommissioning**: Is the project temporary in nature and will the site be returned to its existing state at the end of the project’s useful life? Does the project have a decommissioning plan in place already? Does this plan promote the recycling of materials recovered from the decommissioning of the project?

Examples of key measurable performance data to be collected at the due diligence stage include:

- Health & Safety statistics (e.g. number of RIDDOR incidents);
- Local employment opportunities created by the project (temporary and permanent);
- Details of local apprenticeships or new training days created by the project;
- Local supply chain spending created by the project;
- Community benefits paid over the project life;
- Community engagement (e.g. number of council meetings attended);
- Site visits / local schemes to be undertaken over the life of the project.

### 4. GOVERNANCE

While infrastructure project companies often do not have employees, it is important to evaluate their wider governance framework. Relevant considerations include assessing whether a project is in compliance with relevant laws and regulations, and whether best practice policies have been adopted by the project company board. For larger infrastructure assets, which may be owned in consortium with other investors, then the governance procedures related to the board and shareholder representation are also a material consideration.
Foresight will ensure that where project companies have not already implemented established best practice policies, these will be adopted on completion of an investment.

In evaluating this criteria, the Investment Team will look at the following factors to derive the score:

- **Compliance with laws**: Is the project in compliance with relevant local, national and international laws and regulations? Does non-compliance represent a significant risk of prosecution and/or business interruption? Are any prosecutions pending or threatened?

- **Employment and human rights**: Does the project comply with relevant employment legislation? Does the project ensure that the human rights of its employees are considered and protected?

- **Anti-Bribery and corruption**: Do the project’s key contracts contain termination rights in respect of breach of the Bribery Act 2010, or equivalent? Does the project have an Anti-Bribery policy?

- **Management structure**: Are the project’s decision-making processes and legal documents appropriate, robust and supportive of shareholders’ rights? Is there sufficient accountability, favourable indemnities and warranties in project documentation?

- **Board**: Is the composition of the Board and the quality and experience of its members suitable? Is the Board free from conflicts of interest and does the Board contain independent directors?

Examples of key measurable performance data to be collected at the due diligence stage include:

- Number of permitting breaches and details of any enforcement actions;
- Details of any breaches under local laws, and details of any enforcement actions in the past two years;
- Best practice policies not adopted by project Boards;
- Number of managers with ESG accountability.

5. **THIRD PARTY INTERACTIONS**

As part of the due diligence process Foresight will analyse the key counterparties in a project’s supply chain and seek to evaluate and score them in line with the above Sustainability Evaluation Criteria wherever relevant. We believe that diligent procurement not only helps to de-risk the delivery and operation of a project but that it also enables Foresight to take a more holistic approach to a project’s overall sustainability.

In evaluating this criteria, the Investment Team will look at the following factors to derive the score:

- **Compliance with laws**: Are the key counterparties compliant with local and international laws, including environmental, health and safety and employment laws?

- **Key counterparty supply chain**: Are steps taken to provide reasonable assurance that there are no labour standards, health and safety or human rights issues in the supply chain? Does any part of a key counterparty’s supply chain come from conflict affected or high-risk areas?
• **Reputational risk**: Is there risk of reputational damage or litigation? Do the project’s key subcontractors comply generally with Foresight’s sustainable investing criteria?

• **Key counterparty policies**: Have the following policies been requested and received (to the extent relevant?)
  – Modern Slavery Statement;
  – CSR policy or statement;
  – Code of Ethics
  – Anti-bribery and corruption policy;
  – Diversity policy;
  – Health and safety statement;
  – GDPR policies.

Examples of key measurable performance data to be collected at the due diligence stage include:

• Details of any breaches under local laws and details of any enforcement actions;
• Best practice policies not adopted by project Boards;
• Spend on, and use of, key counterparties in local supply chain;
• Dissemination of sustainable investment policies and best practice to supply chain.
IMPLEMENTATION OF SUSTAINABILITY EVALUATION CRITERIA

The key output from the evaluation will be a ‘Sustainability Web’ that acts as a visual representation of a project’s rating against a pre-determined minimum threshold for that asset class. These minimum thresholds are set following in-depth workshops and consultation within the Infrastructure Team, with input from external advisors and consultants where necessary. Should a project score low on one of the criteria, it may be possible for the project to increase this score by employing a mitigation strategy or re-profiling the associated risk.

If overall an asset scores below the relevant asset class threshold it will be noted within the Investment Committee paper and discussed at the relevant Investment Committee meeting, which may suggest additional mitigation strategies or recommendations as a condition to Investment Committee approval.

In the event that no effective mitigation strategy can be implemented, Investment Committee approval may not be granted and the investment may not proceed.

A worked example for one of Foresight’s battery storage assets is included below:

Sustainability Evaluation Criteria Analysis
ONGOING MONITORING
Foresight’s thirty-nine strong in-house Asset Management team has responsibility for monitoring the operational performance of the portfolio and updating the Sustainability Evaluation Criteria matrices. The Institutional Investor Relations team ensures that this information is effectively reported to investors.

Foresight Group utilises a number of asset management tools and systems for real-time monitoring and tracking of sites and initiatives. The systems, which are independent of the monitoring of Operations & Maintenance (O&M), provide real-time data for all Foresight plants. Automatic reports enable quick reaction to site downtime, oversight of O&M response times and timely management of issue resolution. A reporting software system is also embedded to generate bespoke reports. As well as providing data on production, overheads and power price, it also provides a platform for in-depth analysis and commentary on portfolio issues.

Foresight’s Asset Management team has delivered substantial performance enhancements to its assets and continues to develop this across its portfolio. However, where appropriate, the team also engages with independent third parties to conduct assessment reports that evaluate the environmental and planning permits and ensure appropriate compliance. Our assets also undergo health and safety assessments, including assessments of the condition of the grounds, fences, tracks and roads, to mitigate any associated risks to both employees and the community and to ensure our sites remain compliant with industry standards.

HEALTH AND SAFETY MONITORING
Health and safety is a primary consideration for the Group. Health and safety incidents are typically monitored and dealt with by a project’s O&M contractor. Monthly reports are submitted to Foresight which detail any incidents or accidents that have occurred in the period. This is supported by the Asset Management team who meet on a weekly basis to review all projects in the portfolio. Any incidents or red flags are identified and discussed so that the appropriate action plans can be implemented. The team work closely with Institutional Investor Relations to ensure that any reportable incidents or accidents are communicated to investors in a timely manner.

There are strict systems and processes in place to communicate all health and safety issues and incidents in a clear and transparent way to all relevant stakeholders. Any health and safety related issue is reported to a dedicated central email address. This information is assessed and disseminated to the wider organisation as required. Each incident is assessed on its nature and classified depending on its level of severity, including minor, serious, reportable or major. Based on these elements, the incident is then reported to the Senior Management team and Executive Committee and the necessary action taken. Appropriate action plans are implemented and, where appropriate, Institutional Investor Relations and Marketing are advised where communications with investors and press is required.

All incidents are followed up meticulously by the Asset Management team. A ‘Lessons Learnt’ document is circulated following RIDDOR or other serious incidents and regular meetings are held with the teams to enable a sharing of knowledge.
COMMUNITY ENGAGEMENT
The Asset Management team actively engages with the local communities and regularly attends parish meetings to encourage community engagement and promote the benefits of the assets. Educational site visits are regularly conducted by local schools, colleges and universities.

BIODIVERSITY
Foresight conducts site visits a minimum of twice a year, which amongst other things allows the Asset Management team to monitor biodiversity and habitat protection statuses at its sites and to measure the effectiveness of any interventions put in place previously.

The particular indicators we monitor and actively aim to improve vary from site to site but, for instance, a solar site might include grass and wildflower coverage, the number of injurious weeds and the condition of trees and hedgerows. Foresight actively looks to enhance the biodiversity and landscape elements of its sites through the creation of new hedges, planting of trees and building and installing bat and bird boxes.

These improvements are also captured and tracked on an annual basis.

ELECTRICITY PRODUCTION AND USAGE
Whilst the electricity production figures are clearly captured, a project’s energy consumption readings are also taken and these statistics recorded and tracked.

REPORTING
Foresight Group has robust and structured processes in place for fund investor reporting and is experienced in working to meet the requirements of a wide range of investors. Foresight agrees the reporting format, content and frequency required for investors’ management information systems. Foresight works alongside the Investment and Asset Management teams to ensure the right systems and processes are in place to monitor and track the relevant information so that it can be clearly reported to investors. In certain circumstances, Foresight has opted to include its own controls which contain more onerous tests than those required by an investment mandate.
Below is an illustrative extract from the reporting provided to one investor regarding their required ESG metrics. The anticipated outputs from the project (in this case a biomass-fuelled Combined Heat and Power plant) are reported at the time of investment and then throughout the holding period.

### Outputs

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment during construction - temporary jobs</td>
<td>Person years</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Employment during operation - permanent jobs</td>
<td>Full-time equivalents</td>
<td>3</td>
</tr>
<tr>
<td>Baseline GHG emissions (e.g. reference scenario without investment implementation)</td>
<td>kt CO2e/a</td>
<td>10.6¹</td>
</tr>
<tr>
<td>Absolute GHG emissions (e.g. after investment implementation)</td>
<td>kt CO2e/a</td>
<td>0</td>
</tr>
<tr>
<td>GHG emissions saved or avoided</td>
<td>kt CO2e/a</td>
<td>10</td>
</tr>
<tr>
<td>Electricity generation capacity from conventional energy sources</td>
<td>MW</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Electricity produced from conventional energy sources</td>
<td>GWh/yr</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Electricity generation capacity from renewable energy sources</td>
<td>MW</td>
<td>0.779 (net of self-consumption)</td>
</tr>
<tr>
<td>Thermal produced from renewable energy sources</td>
<td>GWh/yr</td>
<td>32 GWh/yr</td>
</tr>
<tr>
<td>Households which could be supplied with the energy generated by the project</td>
<td>Number of households</td>
<td>2,700</td>
</tr>
<tr>
<td>Electrical Energy Efficiency achieved</td>
<td>GWh/yr</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Thermal Energy Efficiency achieved</td>
<td>GWh/yr</td>
<td>11 GWh/y of Fuel Energy or Primary Energy²</td>
</tr>
</tbody>
</table>

Foresight’s Institutional Investor Relations team is committed to reporting to all infrastructure investors, at a minimum, on a quarterly basis. All reports include a mandatory section updating investors on any significant sustainability related issues, such as health and safety incidents or environmental breaches.

Where members of Foresight hold seats on project Boards, the relevant Director will seek to include the Sustainability Evaluation Criteria as a standing agenda item in the board packs in order to promote transparency, aid reporting and address any sustainability issues. It is intended that the summary evaluation matrix produced for each project will be updated annually to capture the measurable statistics outlined above. This will allow progress to be tracked across the portfolio over time. More importantly, this disciplined approach and monitoring of key sustainability performance metrics will help to identify any new risks arising so that mitigation plans can be implemented, as well as opportunities identified for further improvement.

To ensure the performance measures are accurate and reliable, where appropriate, Foresight commissions assessments by third party providers. For example, to calculate the energy efficiency and environmental impact of some of our sites, Foresight utilises the Environment Agency’s lifecycle assessment tool - Waste and Resources Assessment Tool for the Environment (WRATE) Report. This enables the Group to provide information that is as accurate and as scientific as possible. To maintain a level of transparency and professionalism, this information is distributed to all investors within that fund, regardless of whether they have formal frameworks in place.
Summary

Foresight views investing sustainably and seeking to make a positive social and environmental impact as critical to long-term success. This drives our vision of ‘Investing for a smarter future’ to create a better, more sustainable world.

We recognise that sustainability is inherently subjective but at Foresight we endeavour to apply an objective overlay – hence our belief that you need to first start with clear definitions and principles, and develop a robust framework for evaluation.

To deliver sustainable investments we believe:

- That investing in sustainable infrastructure requires a holistic perspective and an understanding that the concept of sustainability should apply across the organisation as a whole. A sustainable approach to managing the firm itself, an awareness of its social and environmental interactions and a sustainable approach to managing its own human capital are crucial.

- That if well defined, the term ‘Sustainability’ can provide an objective benchmark, which can be used to evaluate the suitability of potential investments and, ultimately, enhance their contribution to the Sustainable Development Goals. This is based on long-term themes such as the increasing scarcity of natural resources, climate change and clean energy.

- That we are part of a wider ecosystem of investors, governmental and non-governmental organisations and other stakeholders that are all involved in the work necessary for a transition to a sustainable future.