For professional investors only.

INFRASTRUCTURE FINANCE

Sustainability and Impact Report

June 2023

Schroders capital

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Foreword

The world needs more infrastructure to support economic development and improve quality of life, but not any infrastructure. As we move towards a net zero society, it has indeed become critical for these infrastructures to be designed, built and managed in a sustainable way; that is both climate-resilient and contributes to the transition to a low carbon economy.

At Schroders Capital Management (France), we have established Sustainability and Impact ("S&I") as an integral part of our DNA.
We have the ambition to support, as a debt and equity investor, best-in-class S&I infrastructure projects and act as a catalyst for the digital transformation and the energy and ecological transition of our societies.

As a long-term asset manager specialized in infrastructure investments, we indeed recognize the importance of integrating environmental, social and governance ("ESG") factors throughout the entire investment cycle – from the investment decision and portfolio constructions, to the holding period – to ensure that the assets we invest in are compatible with actual and future ESG challenges.

We believe that this approach not only contributes to positive societal and environmental outcomes but also creates long-term value for our investors. In particular, we want to turn sustainability risks and challenges into investment opportunities.

As such, our S&I report – which is reviewed and issued on a yearly basis in accordance with Article 29 of the law n° 2019-1147 of 8 November 2019 on energy and climate – sets out to achieve 4 objectives:

- **Introduce our S&I ambition for Schroders Capital Management (France)**

- **Explain our approach to S&I investing**

- **Present key regulations**

- **Lay out the S&I performance of our infrastructure finance activities and be transparent about the challenges facing infrastructure market participants**

While recognizing progress made towards our ESG goals, we accept that we are at the beginning of a long journey and remain committed to continually improving our practices and reporting to ensure that we are meeting the expectations of our investors, stakeholders, and society as a whole.

Frederic Brindeau

Head of Infrastructure Asset Management and ESG

Section 1
Our Sustainability and Impact Ambition

Committed to going net zero carbon

In 2020, Schroders Plc became a founding member of the Net Zero Asset Managers Initiative, a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. This commitment was just one step on Schroders decarbonisation journey. In 2021, Schroders Plc committed to the Science Based Targets Initiatives, committing to align our in-scope assets under management (listed equities, corporate bonds, REITs and ETFs) to a 1.5C pathway by 2040, with an interim target of 2.2C by 2030. Schroders Plc have further committed to have 100% of its assets under management within our SBTi by 2040. This includes Schroders Capital, the private assets investment division of Schroders Plc, and therefore Schroders Capital Management France. In 2022, Schroders Plc became one of the first 20 financial institutions to have its goals formally validated by the initiative. For more information about our journey, please see our Climate Transition Action Plan (CTAP) and our SBTI verification announcement.

1.1 Schroders Capital

1.1.1 What we do

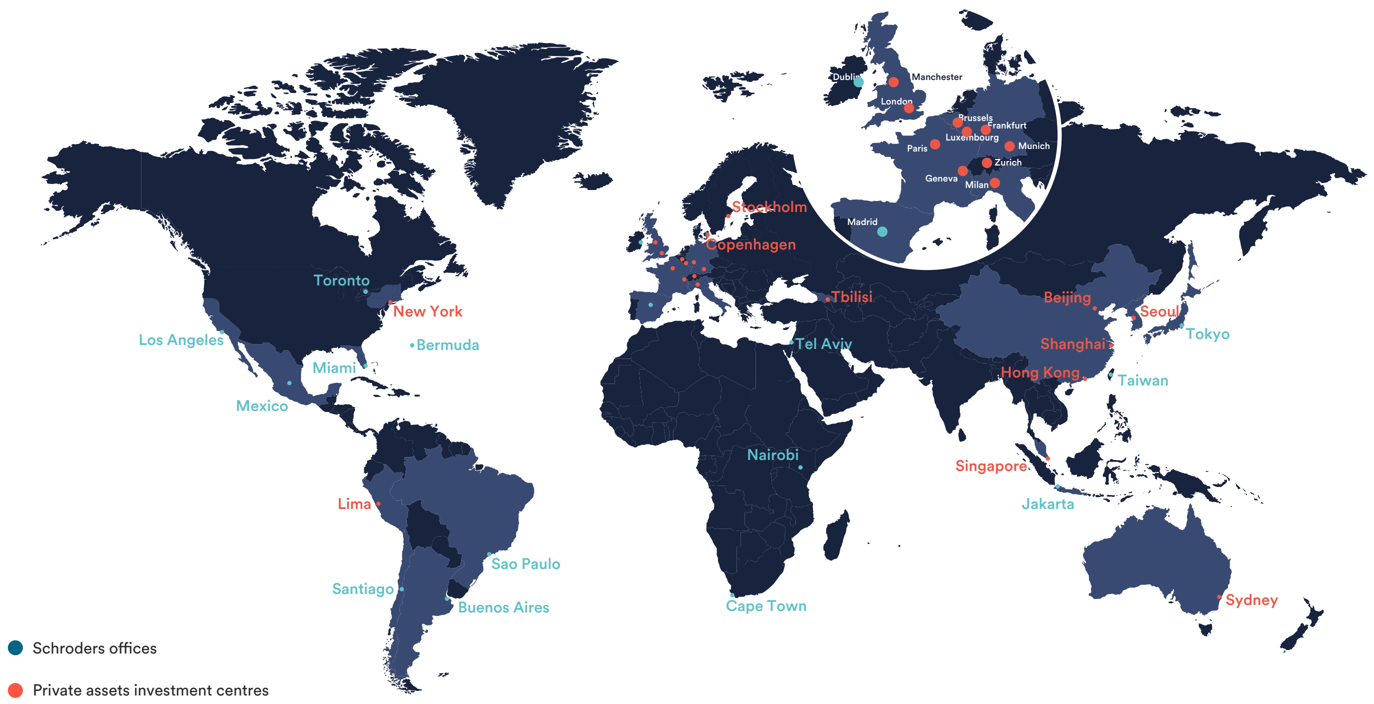
With over 300 investment professionals in 26 locations around the world and $91bn[1] in total assets under management (AUM), Schroders Capital – the private assets investment division of Schroders – is a leading private assets manager combining deeply specialised and localized teams with the strength, scale, and resources of a global institutional platform with a 200-year heritage.

Our teams on the ground are entrepreneurial, inter-disciplinary, and free to pursue the most attractive opportunities in their respective sectors and geographies while benefitting from Schroders Group's scale, resources, and processes in structuring, executing, and generating private assets investments.

For the **businesses and projects** we invest in, this specialism means we can earn our place as a partner of choice. We have deep local and sectoral expertise, the ability to add operational value, and an entrepreneurial mindset. Our scale and stability reinforce our reputation for reliability, resilience, and trust.

For **investors**, our specialism unlocks access to investment teams on the ground, and attractive opportunities. We can also leverage complexity premiums, understand and anticipate changing industries and markets. Private markets investors want to allocate at scale with ease and confidence under the stability and capabilities of a trusted institutional steward of their capital.

A global perspective with a deep understanding of local private markets



Our offering sits across four business segments:

Private Equity, Private Debt and Credit Alternatives, Real Estate and **Infrastructure**, and two transversal capabilities that enable us to combine investment blocks into bespoke solutions for both institutional and individual clients, while accessing an extensive range of S&I investing opportunities.

We add value by improving investments over their lifetimes through operational value creation. This requires sector expertise, a deep footprint on the ground, entrepreneurial spirit, and a long-term investment horizon. It is, in our view, the only route to deliver a financial return alongside positive social and environmental outcomes.

[1]As of 31/12/2022. Source: Schroders Capital.

1.1.2 Our ambition in sustainable and impact investing

Our ambition is to continue developing innovative ways to capture S&I investing opportunities at scale across a comprehensive range of sustainability challenges.

In doing so, we aim to deliver the entire spectrum of risk-reward and S&I investment opportunities across asset classes and consolidate our position as an industry leader.

In practice this means:

- Getting closer to the assets we manage to maximise the potential long-term impact of our investments on the planet and its inhabitants
- Continuously innovating with our clients and all stakeholders
- Achieving scale by adapting industry leading ideas, principles and models for deployment across private asset portfolios
- Building a network of entrepreneurial and interdisciplinary investment teams with extensive expertise in S&I

While being ambitious, we are mindful that S&I investing is a complex and ever-moving challenge. At Schroders Capital, we are focused on transparency, robust data collection, stewardship, monitoring, and continuous improvement in how we measure outcomes.

What do we mean by sustainable & impact investing?

As we move towards a world which is progressively pricing in both positive and negative externalities, it is becoming ever more critical to understand, assess, monitor, report on, and enhance the impact of our investment activities on the planet and its inhabitants.

Our conviction is that S&I investing can play a critical role in resolving environmental and social challenges, in addition to generating financial returns. This is especially the case in private markets where we typically have a greater ability to operate and enhance the assets we are investing in and where a longer investment horizon can enable long-term changes.

We fully integrate environmental, social and governance (ESG) factors into our investment process to identify the issues that can impact an asset's risk and return profile.

To do so, we adopt the Schroders Group' Sustainability Accreditation Framework, which is performed and renewed by Schroders' central Sustainability Investment team on an annual basis. This annual accreditation entails a thorough review of all ESG processes and tools across our business lines to ensure these are rigorous and fit for purpose as our offering evolves.

In addition to ESG integration and engagement, we have a forward-looking Global Sustainable and Impact Product Framework, which captures our current offerings and pipeline opportunities, across the entire spectrum of risk-reward and S&I objectives. This encompasses sector-specific, multi-private assets, and bespoke investment solutions.

>1/3 of Schroders Capital portfolio is in sustainable or impact investing strategies[2]

~80% of our product pipeline (conceptual or development stage) is in strategies with sustainable or impact investing characteristics[3]

[2]Source: Schroders Capital Sustainability and impact report 2022.
[3]Ibid.

1.1.3 Our approach to sustainable and impact investing

Schroders Capital aims to implement a consistent assessment of sustainability risks and opportunities across its investment processes.

This overarching approach guides our practices. This ensures that S&I are gradually embedded in all the relevant steps of the investment process, from the formulation of strategic intent, to origination and structuring, portfolio management, impact at exit, and verification. It draws on market best practices, principally the Operating Principles for Impact Management (Impact Principles)[4], to which we are a signatory for our Impact driven strategies[5].

Each new product's S&I characteristics are classified in terms of low, medium, and high S&I potential, and must be approved by Schroders Capital's Product Development Committee (PDC). The potential is assessed and targets are set, measured, and monitored during the entire life of the investment strategy.

While each investment team has developed tools and techniques specific to their investment areas, all follow shared standards and practices.

This common approach for S&I strategies starts with three central tenets:

- **Intent:**
  We strive to ensure that S&I considerations are well represented in the investment objectives and complement the achievement of financial returns.
- **Contribution:**
  Our S&I investment process seeks to contribute positively through a range of strategies and themes including climate mitigation and adaptation, financial inclusion, healthcare, sustainable cities, innovation, job creation and economic growth. Active ownership and engagement expand our principles and their implementation across the entire value chain of intermediaries and stakeholders with whom we work.
- **Measurement:**
  Transparency and disclosure are fundamental to our approach. We collect S&I metrics to measure the effectiveness of our investments in achieving the goals we set for each strategy, theme, or sector. These also inform future investment decisions.

As part of Schroders Group, Schroders Capital private assets businesses are committed to key global initiatives (full list available at https://www.schroders.com/en-gb/uk/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-votingreports/industry-involvement/). Further information on Schroders Capital policy and report can be found at https://www.schroderscapital.com/en/global/professional/sustainability-and-impact/our-approach/

[4]Impact Principles can be found here: https://www.impactprinciples.org/
[5]Schroders plc. signed in September 2022.

1.2 Schroders Capital Management (France)

1.2.1 Introduction

Part of Schroders Capital, Schroders Capital Management (France), formerly known as Schroder AIDA, is specialized in infrastructure investing. It is regulated by the AMF under the Alternative Investment Fund Managers Directive and licensed to manage Alternative Investment Funds ("AIFs"). Based in Paris, France, it is a core component of Schroders Capital. Schroders Capital Management (France) invests in debt (total outstanding of €2.6bn as at 31 December 2022) and equity (total Net Asset Value of €1.2bn as at 31 December 2022) in various infrastructure sectors, such as transportation, conventional and renewable energy, telecom and social infrastructure. The sustainable and impact investment strategy applies to the debt and equity activities.

1.2.2 Our 4 strategic pillars

Focusing on Social Value

Support essential infrastructures and target sectors and projects with a positive social and economic impact

Mitigating Risks

Identify and mitigate key risks with resilient business models

Revealing and Cultivating Financial Performance

Source asset with strong relative value and sustainable performance

Taking the Long-Term View

Ensure that the assets we invest in are compatible with actual and future environmental, social and governance challenges in the long-term

Essential Infrastructure – **Sustainable** Performance

1.2.3 Our ambition statement

- Establish S&I as a defining characteristics of Schroders Capital Management (France)
- Incorporate S&I as the third dimension of investing alongside risk and return
- Focus on diversified and selective investments within infrastructure to play an active positive role in the transition towards Sustainability

1.2.4 Our contribution to sustainable investments

The world needs more infrastructure, but not any infrastructure. To achieve the Paris Agreement and the UN Sustainable Development Goals' (SGDs) on an economic, social and environmental standpoint, infrastructure assets should be sustainable and climate resilient. Moreover, the long life of infrastructure assets and our long-term investment horizon (5 - 30 years) requires us to take into account environmental, social and governance (ESG) criteria in our investments and to ensure that the assets we invest in are compatible with actual and future expectations in the long term. At Schroders Capital Management (France), we consider our role and contribution towards the Paris Agreement and SDGs, both as a debt and equity investor, as of utmost importance. For this, we believe that any asset can contribute to one of these objectives, and that all investments should therefore be considered as opportunities.

We are looking at a broad range of projects as long as ESG impacts, risks and opportunities can be identified and meet our ESG expectations. We believe that any infrastructure business needs to have healthy relationships with their stakeholders in order to thrive into the future. This includes employees, suppliers, customers, the environment, regulators and the communities in which they operate. These stakeholders assume different degrees of importance according to the company's specific business activities. We believe that strong governance and oversight of these stakeholder relationships is in the best interests of the company, its investors and funders. By integrating these ESG considerations into our investment process, we expect to see stronger long-term risk adjusted returns. Our ESG policy and practices reflect the experience and knowledge that we have built up in the infrastructure sector and the specific needs and considerations of infrastructure companies.

We utilise in particular a detailed scorecard that analyses the most material ESG considerations, monitor projects and companies throughout the life cycle of our investment and provide ongoing reporting that quantifies the impact we are having and how our investments are performing in this space. This Sustainability and Impact report describes our commitments and explains how we implement them throughout all Schroders Capital Management (France) investments.

1.2.5 Sustainability & impact governance

A Sustainability and Impact (S&I) Committee composed of the Head of Asset Management and ESG, the CEO, Deputy CEO and Head of Debt, Head of Risk, Head of Compliance and one Infrastructure Equity Fund Manager meets at least quarterly.

The S&I Committee oversees the S&I strategy, policy and practices at Schroders Capital Management (France). The S&I Committee is also responsible for developing and overseeing implementation of the S&I ambition. In particular, the purpose of the S&I Committee includes the following:

- Provide a forum for sharing of ESG and S&I news and information relevant for Schroders Capital Management (France) activities
- Review initiatives at Schroders Group and Schroders Capital level
- Discuss new product offerings from a S&I perspective
- Review and approve Schroders Capital Management (France) S&I Policy, Reports and Processes. The S&I Report will be reviewed on a yearly basis
- Ensure appropriate level of awareness within Schroders Capital Management (France) Infrastructure Debt and Equity investment teams on S&I best practices and upcoming ESG/S&I requirements
- Review and discuss S&I topics and initiative from Risk and Compliance functions

Moreover, a Sustainability and Impact update is prepared and submitted to the attention of the Supervisory board ahead of each regular Supervisory Board.

In addition, a dedicated team at Schroders Capital level composed of the Head of Sustainability and Impact assisted with a project manager, a sustainability counsel, a climate specialist and a data analyst is providing support and oversight on:

- ESG/S&I policies, procedures and guidance
- ESG/S&I frameworks, scorecards and tools
- Climate integration Data, tools and reporting
- ESG/S&I regulations and product governance
- ESG/S&I monitoring and risk management

The Head of Asset Management and ESG is also a member of several S&I workstreams organised at Schroders Capital level.

Overview of S&I team and capabilities

29+

private assets sustainability and impact specialists

5

private assets central expertise and capabilities

8

ESG-CFA certified infrastructure investment specialists

1.2.6 Sustainability & impact team and resources

Frédéric Brindeau has been the Head of Infrastructure Asset Management and ESG for Schroders Capital Management (France) since December 2019. He is responsible to define, implement and monitor our ESG policy with regards to Infrastructure debt and equity. He has more than 25 years of experience and has developed specific knowledge about ESG, Sustainability and Impact. He is supported by a team of analysts and associates that dedicate part of their time to S&I activities. They notably make sure to fully incorporate S&I in our investment and monitoring processes.

The S&I team is in close communication with the ESG teams at Schroders Capital and Schroders Group level who help us in conducting research and provide guidance around new regulations and the latest topics in the world of sustainability.

To reinforce our internal ESG capabilities within Infrastructure, and in addition to trainings available at Schroders Group level (including a sustainability curriculum) as well as the organization of a Fresque du Climat in the Paris office in 2022, employees and management are offered to pass the CFA Institute Certificate in ESG Investing (the cost of such certification being fully borne by Schroders Capital Management (France)). The CFA certificate and learning materials were developed by leading practitioners for practitioners, and have been recognized by the UN Principles for Responsible Investment (PRI). We are pleased to report that as at June 2023 all associates and analysts in the debt investment team have completed their CFA certification in ESG Investing.

1.2.7 Our corporate sustainability commitments

Schroders Capital Management (France) is committed in our day-to-day operation to minimise our carbon and ecological footprint. Schroders Capital Management (France) has a policy not to offer non ESG-friendly benefits to staff (no thermic company car) and encourages staff to use ESG-friendly transportation means by subsidizing public transport (Pass Navigo) as well as green mobility (e.g. bicycles in particular) costs. Schroders Capital Management (France) staff is also incentivised to:

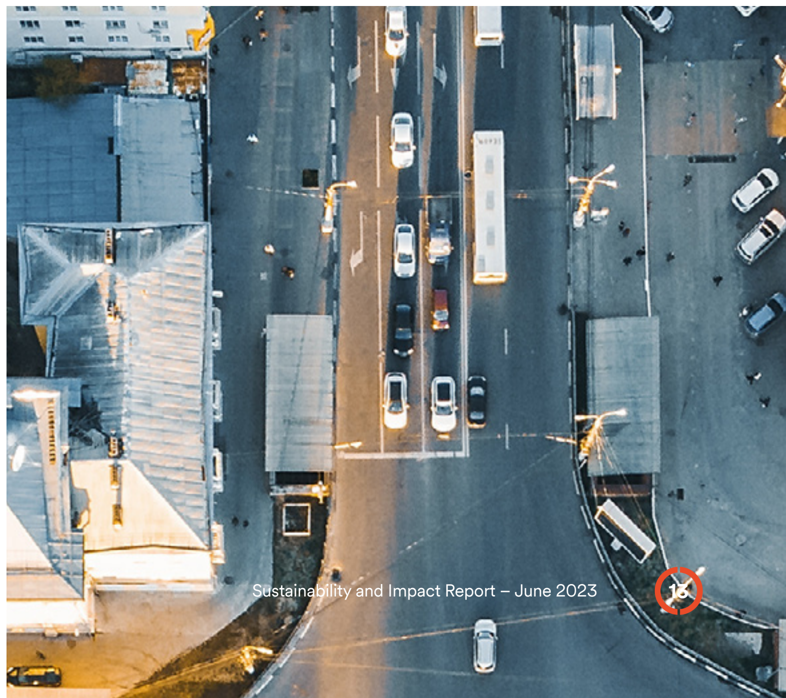
- Limit business travel and use alternative virtual communication modes (conference calls, video conferences)
- Favour public transportation over taxis in business travels
- Favour train over plane when possible: for example, Schroders Capital Management (France) staff is not allowed to fly to London, Brussels, Luxembourg or Amsterdam (save for exceptional reasons)
- Rational use of paper printing and electronic means of communication

Schroders Capital Management (France) premises being part of the Schroders France office, team members have to comply with Schroders Group policies (including ESG policy) applicable in all its facilities. Schroders Capital Management (France)'s ESG policy derives from a number of incentives put in place by Schroders Group. In particular, an ESG working group was created within the various structures hosted by the Paris Office (Schroders Capital Management (France), Schroder Real Estate Hotels, Schroder IM Europe).

This working group, designated as "Corporate Social Responsibility (CSR) Forum", has been very busy in 2022 in organizing various actions, totalling 250 participants and €42k collected. Key initiatives are listed below:

- Three funds raising campaigns in favour of Le Secours Populaire ("Extreme cold" operation for homeless people), Médecins sans Frontières and La Croix Rouge (Urgence Ukraine) and Association AIDA (Christmas gifts for hospitalized children)
- More than 240 social and environmental challenges registered through "Vendredi" (a specialized CSR platform promoting employee's engagement), including:
  - Solidarity march in favour of ELA (Association Européenne contre les Leucodystrophies) for its « Mets tes baskets et bats la maladie » campaign
  - 5.5km Business Run in the Bois de Boulogne in favour of cancer research
  - Blood donation at Maison de la Trinité (Paris 9)
  - Food donations organized by La Chorba
  - Organisation of a "Fresque du Climat" to raise awareness of global warming among Schroders staff
  - Sponsorship of Paris half-marathon in favour of AFM-Téléthon
  - Waste collection on Earth day (22 April) in the Bois de Boulogne

Finally, information on diversity and inclusion are available at Schroders Group level: https://www.schroders.com/en/about-us/people-and-culture/inclusion/



Section 2
Investment and Monitoring Process

S&I is a key component considered throughout all phases of the investment process. As such, we have developed a comprehensive S&I toolbox to perform a qualitative and quantitative assessment of every transaction contemplated. Below is an overview of the process:

- **Deal Sourcing and Origination phase:** We favour investments with strong ESG credentials and UN SDGs alignment and apply negative screening and exclusions lists.
- **Selection phase:** We perform a preliminary ESG assessment of the transaction using our proprietary tool CONTEXT[6].
- **Due-diligence phase:** We carry out a thorough review of the due-diligence package and report findings into our internal S&I scorecard in order to issue an ESG scoring. The Head of Asset Management and ESG circulates its sustainability opinion ahead of the Investment Committee.
- **Execution and ongoing monitoring phase:** We report quarterly on any noticeable ESG-related issue and collect information on an annual basis to monitor ESG performance at portfolio level. Where relevant and appropriate, we engage with our counterparties.

The detailed description of the mechanisms and objectives of our S&I tools is provided below.

2.1 Positive Screening

We first apply a positive screening to increase exposure to our main S&I investment themes, subject to existing concentration limits:

- Renewable energy, such as solar, hydro, wind and, directly-related businesses
- Infrastructure supporting the energy transition, such as electric vehicles, grid stabilization, and the substitution of coal or fuel by gas and hydrogen
- Infrastructure with social benefits, such as health and elderly care, clean water, waste treatment and education

2.2 Schroders Group CONTEXT[6] qualitative due diligence

We leverage Schroders Group's ESG resources by using an internally developed proprietary tool called "CONTEXT[6]" during our investment process. CONTEXT[6] looks at how different sectors are affected by emerging ESG trends through a "stakeholder analysis" lens – the framework suggests that different trends will affect different types of stakeholders differently and that all stakeholders will play a role in determining the long term sustainable performance of sectors and companies. This tool forms the basis for the qualitative due diligence questionnaire for each investment and its questions will vary depending on the sector of the asset.

As an example, some of the questions raised for assets in the transportation sector are presented below. As a testimony to our ESG approach, the Schroders infrastructure practice led by Schroders Capital Management (France) has received internal accreditation by the Schroders ESG team.

Customers	– How does the company monitor the level of satisfaction among its customer base? – Has it faced sanctions for poor compliance?
Employees	– How is the company perceived by current and prospective employees? – Does it invest in training and development? – How effectively does it retain talent? – Does the company have policies and programs to increase awareness of health & safety?
Environment	– How does the company's Nitrogen Oxides (NOx) and Sulfur Oxides (SOx) pollution footprint compare to peers? – Does it have NOX and SOX reduction targets? – How exposed is the business to higher carbon prices? – Is the company investing in new efficiency technologies or targeting emissions reductions? – How energy efficient is the company? – Is the company actively investing in alternative fuel technologies?
Local Communities	– How much has it invested in local community development? – How much criticism has it faced from civil society groups?
Regulators & Governments	– How effective are the company's security processes? – Has it been heavily fined in recent years? – Has it faced significant lawsuits?
Suppliers	– How reliant is the company on ancillary services? – Does it monitor its suppliers regularly?

Example of CONTEXT questions on the transportation sectors, Source: Schroders Capital Management (France).

[6] CONTEXT is a proprietary tool used by Schroders to support the analysis of companies' and issuers' management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company's or issuer's industry. It provides access to a wide range of data sources chosen by Schroders. Any views or conclusions integrated into Schroders' investment-decision making or research by fund managers or analysts through the use of CONTEXT will reflect their judgement of the sustainability of one or more aspects of the relevant company's or issuer's business model rather than a systematic and data-driven score of the company or issuer in question.

2.3 Negative screening and general exclusion policy

Based on the CONTEXT[6] questions and our general views and objectives, the investment team may exclude investment opportunities due to the business model or sector before seeking Investment Committee approval. For example, in the past, we have rejected investments into coal-fired power plants, biomass power plants (where biomass was supplied from non-sustainable sources), shale gas projects and oil and chemical storage company, based on ESG concerns.

In addition, the Investment Team applies the exclusion policy defined at Schroders Capital level available here.

Finally, Schroders has also established at Group level, a list of excluded countries and a list of countries under high risk for which the exception of compliance department must be obtained before any investment.

2.4 Specific exclusions/exit strategy: fossil fuel exploration & production and coal

On top of the general exclusion list, the investment team would not consider investments into the exploration, extraction and production of fossil fuels (coal, oil, gas, shale gas) and any infrastructure that are solely dedicated to such activities.

Coal is major contributor to atmospheric greenhouse gas emissions and companies directly exposed to that fuel face growing social and political pressure as a result. In order to protect the value of our clients' investments, Schroders Capital Management (France) commits either as investment advisor or manager for both its debt and equity activities to exclude investments into any company:

- Generating more than 10% of their revenues in thermal coal and which do not have a credible exit strategy from its coal activities
- Developing new mining, power plant or infrastructure related to thermal coal

2.5 Due diligence and sustainability risks

Only investment opportunities that meet Schroders Capital Management (France)'s financial, economic and ESG expectations are presented to the Investment Committee, which then decides whether or not to invest.

A section of each Investment Memorandum is dedicated to ESG and covers the questions raised during due diligence including a review of the sustainability risks[7] (both physical[8] and transition risks[9]) based on our dedicated internal guidelines. This section is reviewed and discussed systematically before an investment is approved. Any major findings and relevant updates are also reported in our quarterly communications to investors.

2.6 Risk and Impact Assessment Model

As a responsible investor, we believe it is important to present to our clients transparent reports on the ESG dimension of our funds. We therefore want to strengthen our ESG analysis capacities and have developed since 2019 an assessment tool that allows us to measure the ESG quality of our projects during the due-diligence phase of our investment process. This tool is based on a proprietary analysis and has been designed to take into account ESG information relating to each infrastructure type. The tool analyses both the "contribution to sustainability transition" and the "ESG Risk" of investments. The output of the tool is an ESG rating, calculated through the combination of contribution to sustainability transition and ESG Risk analyses. An updated version of the scoring tool was implemented in December 2021.

2.6.1 Contribution to sustainability transition analysis

(a) Alignment to UN SDGs

We consider that investment into infrastructure assets can go beyond ESG compliance and move into the impact investing arena, with a clear objective to assisting the UN meet its "Sustainable Development Goals". Schroders Capital Management (France) aims to be at the forefront of this movement by targeting sectors and projects with a positive social or economic impact. Therefore, before investing, we first analyse the contribution of the asset with a particular (but not exhaustive) focus to the seven SDGs (Sustainable Development Goal) which are the most relevant for Infrastructure (cf. Table 1). We assess to what extent the asset contribution is positive or negative for each SDG analysed. A rating from 1 to 4 is obtained (cf. Table 2).

Table 1. Most relevant SDGs for Infrastructure

Rating	Description
SDG 6.	Clean water and sanitation
SDG 7.	Affordable and clean energy
SDG 8.	Decent work and economic growth
SDG 9.	Industry, Innovation and Infrastructure
SDG 11.	Sustainable cities and communities
SDG 12.	Responsible consumption and production
SDG 13.	Climate action

[6] CONTEXT is a proprietary tool used by Schroders to support the analysis of companies' and issuers' management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company's or issuer's industry. It provides access to a wide range of data sources chosen by Schroders. Any views or conclusions integrated into Schroders' investment-decision making or research by fund managers or analysts through the use of CONTEXT will reflect their judgement of the sustainability of one or more aspects of the relevant company's or issuer's business model rather than a systematic and data-driven score of the company or issuer in question.
[7] Sustainability Risks is defined as an 'Environmental, Social or Governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment'
[8] Risks which arise from the physical effects of climate change and environmental degradation.
[9] Business-related risks that follow societal and economic shifts toward a low-carbon and more climate-friendly future.

6 CLEAN WATER AND SANITATION

Loan provided to a French water company servicing 6.7k+ municipalities through the production, treatment, supply and management of drinking water services. Additionally, the company contributes to the provision of clean water via the collection and treatment of wastewater and treatment of the by-products.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Loan provided to one of the largest independent wholesale operators of fibre-to-the-office network in France. The company connects businesses to high quality fibre, and therefore plays a role in bridging the digital gap in France.

7 AFFORDABLE AND CLEAN ENERGY

Equity investment into a portfolio of Italian solar, wind and biomass projects, providing clean energy in Europe.

11 SUSTAINABLE CITIES AND COMMUNITIES

Loan provided to a railway company connecting two majors cities in Europe. The company is also engaged towards Paris Agreement 2°C trajectory, with targets related to the reduction of GHG emissions.

8 DECENT WORK AND ECONOMIC GROWTH

Investment in one of the Nordics distribution network operator, which (i) has developed partnerships with local SMEs providing indirectly work to over 1,000 men-year (ii) takes care of safety, health and wellbeing of employees and partners, and (iii) requires respect of ethical principles in all activities.

13 CLIMATE ACTION

Investment in a portfolio of hydro plants and wind farms in Spain. The project participates in the energy transition and is essential for the energy independency of an non-interconnected territory.

Example of alignment to UN SDGs of selected past investments. For illustration purposes only.
Source: Schroders Capital Management (France).

Table 2. Alignment to SDGs scoring[10]

Rating	Description
1	The infrastructure has a positive impact on 3 or more SDGs.
2	The infrastructure has a positive impact on 2 SDGs.
3	The infrastructure has a positive impact on 1 SDG.
4	The infrastructure has a zero positive impact on SDG.

(b) Infrastructure asset estimated alignment to taxonomy

In view of the evolution of regulations, and our willingness to contribute to sustainability transition, we then analyse the alignment of the asset with the European taxonomy. We analyse whether each asset is potentially alignment to the European taxonomy, according to the list of eligible sectors to date. A rating from 1 to 4 is obtained (cf. Table 3).

Table 3. Infrastructure asset estimated alignment to the European taxonomy[11]

Rating	Description
1	The infrastructure asset is estimated to be aligned to the taxonomy.
2	The infrastructure asset might be aligned to the taxonomy.
3	The infrastructure asset might not be aligned to the taxonomy.
4	The infrastructure asset is not aligned to the taxonomy.

[10] Process of improving our UN SDGs mapping.
[11] Aligned with the regulation or guidelines available at November 2021.

(c) Contribution to sustainability transition

The scoring “contribution to sustainability transition” is the result of the weighting of the infrastructure asset contribution to SDGs (60%) and infrastructure asset alignment to taxonomy (40%). A rating from 1 to 4 is obtained (cf. Table 4).

Table 4. Infrastructure asset contribution to sustainability transition

Rating	Description
1	The infrastructure asset has a proven positive impact on sustainability transition.
2	The infrastructure asset has a potentially positive impact on sustainability transition.
3	The infrastructure asset has a marginal impact on sustainability transition.
4	The infrastructure asset has a negative impact on sustainability transition.

2.6.2 ESG risk analysis

Before investing, we also carry out an analysis of potential ESG risks and opportunities associated with the asset and underlying activities, at sector level. Based on the internationally recognized frameworks by the Sustainability Accounting Standard Board (“SASB”), the tool automatically generates, for each sector, the most material ESG risks and opportunities as per the below matrix:

The ESG Risk analysis is then conducted at asset level, by means of a sector-specific questionnaire generated by the tool. This questionnaire is completed with information collected from due diligence reports and interviews with the borrower/sponsor/advisor/target. For each theme (Environment, Social and Governance) and based on professional judgment, we assess to what extent the risk is: i) Insignificant, ii) Minor, iii) Moderate, or iv) High with a rating from 1 to 4 (cf. Table 5).

Table 5. ESG risk assessment

Rating	Rating	Description (see below examples of aligned transactions)
Insignificant	1	The risk consequence severity is low (impacts may be safely ignored with the standard procedures) and the investee company has set-up several mitigation actions to monitor risk.
Minor	2	The risk consequence severity is low (impacts may be safely ignored with standard procedures) but the investee company has not set-up actions to monitor the risk.
Moderate	3	The risk consequence severity is high (significant medium and long-term impact) but the investee company has set-up several mitigation actions to monitor risk.
High	4	The risk consequence severity is high (significant medium and long-term impact) but the investee company has set-up actions to monitor the risk.

- GHG emissions
- Air quality
- Energy management
- Water and waste water management
- Waste and hazardous materials management
- Ecological impacts
- Physical impacts of climate change

- Health & Safety
- Employment engagement, diversity and inclusion
- Human rights and community relations
- Customer privacy
- Access & affordability
- Product quality and safety

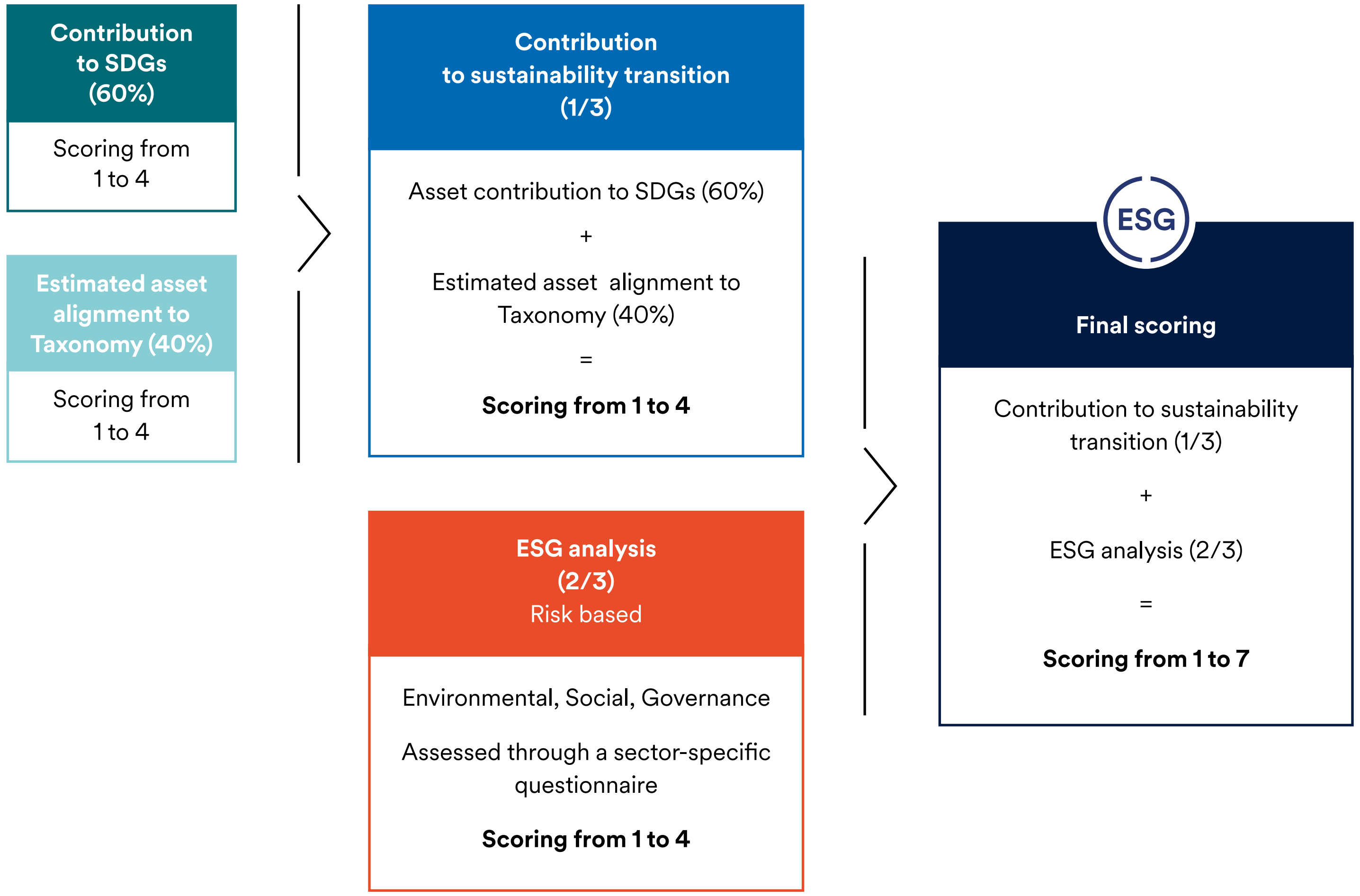
- Materials sourcing and efficiency
- Business ethics
- Supply chain management
- Competitive behaviour
- Critical incident risk management

Source: Schroders Capital Management France, June 2023. Examples of ESG KPIs and dimensions taken into account in ESG risk analysis, as relevant for each transaction.

2.6.3 ESG final rating

Based on the two analyses above, an ESG final scoring (from 1 (best) to 7 (worst)) is calculated for each asset, taking into account:

- The asset contribution to sustainability transition (from negative to proven positive) – 1/3 of the rating
- The ESG risk analysis (from insignificant to high) – 2/3 of the rating



Summary of RIAM, Source: Schroders Capital Management (France).

2.7 Sustainability opinion

As a final step into our Investment Process, the Head of Asset Management and ESG systematically reviews the Investment opportunities and issues a sustainability opinion ahead of Investment Committee. This enables an additional perspective that is taken into consideration for any investment decision.

2.8 Engagement policy

We are taking a pro-active approach to managing our infrastructure equity and debt investments (advised and managed) and, where relevant and appropriate, we engage with our investees and counterparts (in relation to ESG topics) in a number of important ways, as summarised hereafter:

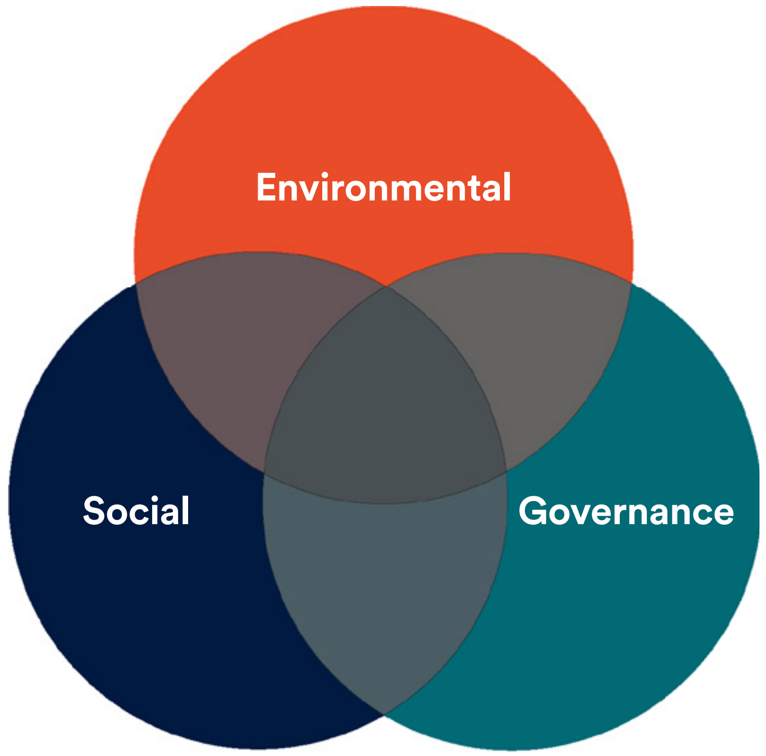
- Incorporating environmental considerations into general meeting resolutions, loan documentation, such as covenants to comply with environmental regulations (including waste and water management), manage pollution, and reduce carbon emissions
- Encouraging our investees and counterparts to disclose non-financial metrics and support increasing transparency on these metrics
- Reporting (i.e. subject to data availability) on environmental metrics such as carbon footprint, energy intensity and recycling ratios
- For unlisted equity interests only, exercising voting rights responsibly and taking account of the environmental consequences of voting
- Engaging with the management of our investees and counterparts to encourage them to adopt policies that benefit to the environment and reduce their impact on climate change
- Promoting Sustainability Linked Loan and ESG margin ratchet mechanisms for investments in transitioning sectors

2.9 Monitoring process

As part of the quarterly monitoring of each investment, a specific report is produced to provide an update on any noticeable ESG related issue.

In addition, we collect information annually to monitor the ESG performance of each investment throughout the investment life. As such, we systematically collect data to monitor performance indicators across all assets and we consolidate them at portfolio level.

Where our investment ESG profile materially deteriorates, we would engage with our borrowers and investee companies, seek to understand and address the deterioration factors, and set our expectations. Where we have been unable to achieve progress towards our engagement objectives, we may for instance review the sustainability and impact assessments and seek to limit funding provided to the company in future debt issuances, externally voice our concerns or seek to collaborate with other like-minded lenders and equity providers.



Section 3
ESG regulations background and disclaimers

3.1 "Article 173[12]" of the "Energy Transition for Green Growth" act

Article 173-VI of the French "Energy Transition for Green Growth" act (Loi de Transition Énergétique pour la Croissance Verte) requires institutional investors to disclose information on the manner in which they incorporate environmental, social and quality of governance objectives into their investment and risk management policies and how they contribute to the ecological and energy transition.

Disclosures are based on a "comply or explain" principle: there is flexibility in choosing the best way to fulfil the law's objectives. All reportable data listed in the decree represents best practice and not an obligation. Reporting requirements under Article 173 may include:

- General approach to incorporating ESG criteria into investment and, where applicable, risk management policies
- Content, frequency and means used to inform clients (investors)
- Membership/support to charters, codes, initiatives and labels relating to the incorporation of ESG criteria
- Where applicable, a description of ESG risks, the business's exposure to these risks and the internal procedures used to identify and manage them
- Description of the type of ESG criteria taken into account
- Information used for the analysis conducted on ESG criteria
- Methodology and results of this analysis
- Description of the way in which the results of the analysis are integrated into the investment policy of the investment fund: changes made to the portfolios and engagement strategy with issuers and asset managers
- For the environmental criteria taken into account, explain the associated climate risks (transition and physical risks) and their contribution to the international objective of global warming limitation
- Contribution to the international objectives towards climate change by explaining the analysis of the consistency of the investment policy with these objectives and the internal objectives of the organization
- Changes made to the portfolios following the climate analysis (exclusion, engagement, investment in green assets or thematic funds, etc)

Schroders Capital Management (France) is fully compliant with this regulatory disclosure requirement as outlined in this Sustainability and Impact policy.

3.2 "Article 29" of the French "Energy Climate" law[13]

Article 29 application decree of the French Energy climate law (dated 8 November 2019) was published on 27 May 2021.

Article 173 came as a forerunner of SFDR. Similarly, Article 29 complements and aims at going further to SFDR (i.e. French ESG goldenplating) notably on the following items:

- Climate (Paris agreement alignment in particular)
- Biodiversity
- Sustainability risks

We provide below a correlation table between the specific Art 29 requirements and our ESG-S&I policy.

Article 29 paragraphs	Reference
1° General approach of the entity	§1.1, §1.2, §2.5, §2.6, §2.9, §3.3, §4.1, §4.2, §4.4
2° Internal tools and workforce deployed	§1.2
3° ESG policy of governing bodies	§1.2, §3.3
4° Engagement strategy	§2.8, §4.4
5° EU Taxonomy and fossil fuels exposure	§2.4, §4.9, §4.10
6° Paris Agreement alignment strategy	§1.1, §4.7
7° Biodiversity alignment strategy	§4.8
8° Sustainability risks analysis and monitoring	§2.5, §4.6
9° Continuous Improvement and corrective measures	§4.5, §4.6, §4.8, §4.10

[12] Pursuant to the provisions of Decree No. 2015-1850 of 29 December 2015 on the communication of "the methods of taking into account in the investment policy criteria relating to compliance with social, environmental and governance quality (ESG) objectives and on the means implemented to contribute to the energy and ecological transition.

[13] Law no. 2019-1147 of 8 November 2019 on energy and climate and its related Decree.

3.3 EU Sustainable Finance Disclosure Regulation ("SFDR[14]")

The European regulation on sustainable disclosures in the financial services sector, which came into force on 19 December 2019 and applied as of 10 March 2021, requires financial market participants and financial advisers to provide investors with certain ESG-related information in relation to certain financial products.

As part of the implementation of SFDR, we have produced and issued the following disclosures, which are available here, and more precisely as follows:

- Sustainability risks (art 3) report here
- Principal Adverse Impacts (art 4) report here
- Sustainability risks integrated into the remuneration policy (art 5) report here
- Engagement/voting policy and report are available here

In addition, as a precautionary measure, all our existing funds (most of them being no longer open to commercialization) have been classified as Article 6 which corresponds to the default classification when not meeting Article 8 or Article 9 characteristics. However, we expect most of our future funds to be either Article 8 or Article 9.

a. Article 8 specific requirements

According to Sustainable Finance Disclosure Regulation (SFDR), an Article 8 fund "promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices". Article 8 shall also include a binding criteria. We have reviewed the regulations as it stands today and designed the following set-up for our Article 8 funds:

- All investments shall be based on our extensive ESG-S&I policy (which includes due diligence and analysis on good governance).
- All investments shall have favourable ESG characteristics as sanctioned in the form of a maximum score (determined once at investment stage) of 5 under our proprietary Risk and Impact Assessment Model (SFDR binding criteria).

b. Article 9 specific requirements

Article 9 fund has "sustainable investment as its objective". An article 9 fund shall invest in sustainable investments which are defined as investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

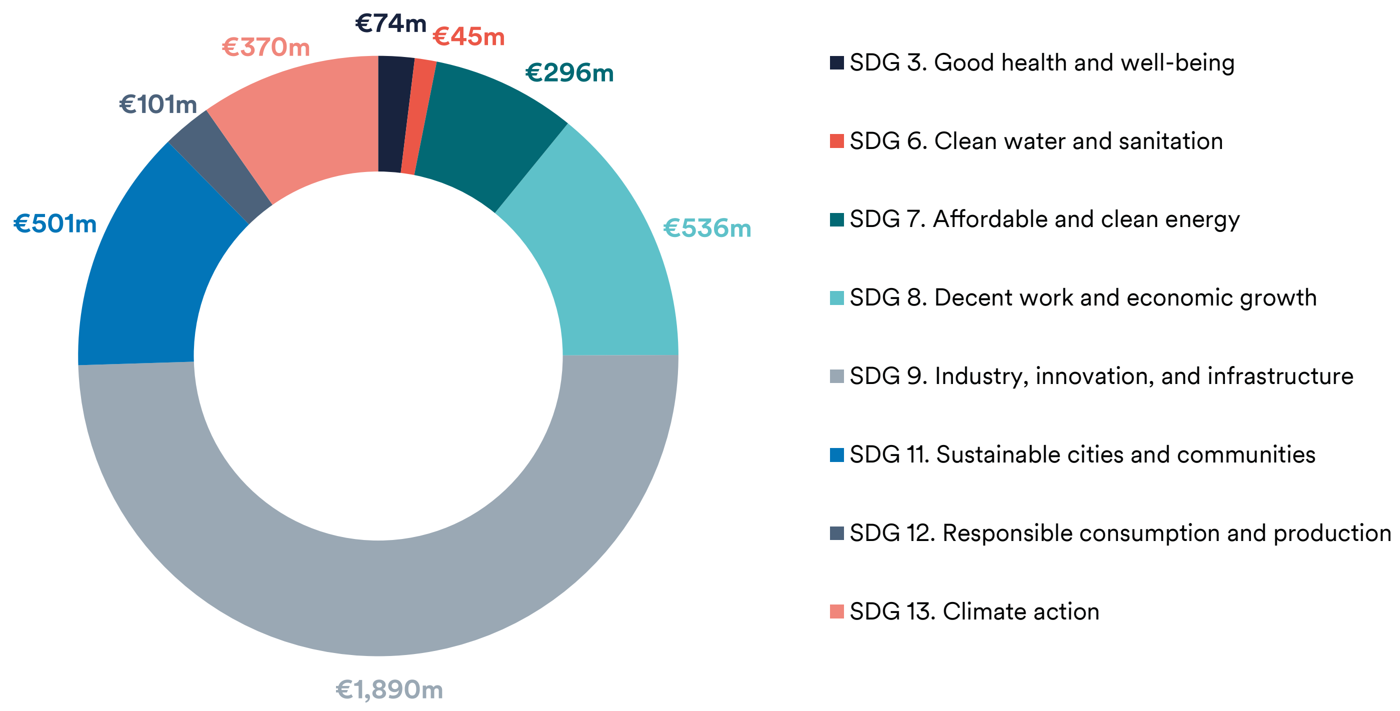
This constitutes the most demanding SFDR standard and implies in practice a further reduced universe of investment.

[14] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector.

Section 4
Sustainability & Impact Reporting

The ESG reporting is available for interested stakeholders at fund and mandate level, based on relevant ESG KPIs for the underlying transactions. This chapter provides an overview of SCMF total portfolio alignment to Sustainability transition and our progress in advancing Sustainability and Impact over 2022.

4.1 Portfolio alignment to UN SDGs



Source: Schroders Capital Management (France). Portfolio alignment to SDGs based on total debt outstanding and equity NAV as of 31 December 2022. In case of multiple SDGs alignment per investment, contribution are assumed equally split among relevant SDGs (pending further evaluation of methodological improvement on SDG mapping).

4.2 Portfolio alignment to sustainability transition

This section presents examples of sustainability and impact KPIs from a selected part of our portfolio.

Renewable energy

c.536 GWh
renewable energy produced

>120k
Equivalent households supplied[15]

Waste and water treatment

988k
Tonnes of waste treated

>14m
of m^3 of waste water treated

Rail transportation

>4m
Urban passengers

146k
Long-distance passengers

Indicators based on relevant investments across the portfolio as at 31/12/2022 (or latest available) using estimated attribution factor of each investment (subject to data availability).
[15] Assuming an average household (4 people) consumption of 4,400kWh.
Source: Schroders Capital Management (France)

4.3 Investment case studies

Investing in high-speed railway in France

Objective

Rail is one of the most energy-efficient modes of transport, representing 9% of global traffic and only 3% of total transport energy use. This railway infrastructure company holds a 50-year concession creating a direct High Speed Line between Paris and Bordeaux and thus significantly decreasing the travel time between those two cities from 3 hours to approximately 2 hours.

LISEA improved its ESG performance and is building a long-term plan in line with UNO Sustainable Development Goals. Schroders Capital managed investment vehicle invested in fixed-rate tranches that, due to the environmental commitments, earned green bond status once refinancing was complete.

Sustainability and Impact

Since 2017, 65 million individuals have chosen to travel by train instead of using their cars or other means of transport The railway infrastructure company established two Carbon and Biodiversity taskforces to finance low carbon emission projects, improve knowledge on biodiversity, protect natural habitat and biodiversity, and increase public awareness locally. In 2020, it created a specific vehicle "SEA fund for the transition of territories" dedicated to ecological and social transition of agriculture and construction sectors. SEA endowment fund is currently supporting 25 local projects.

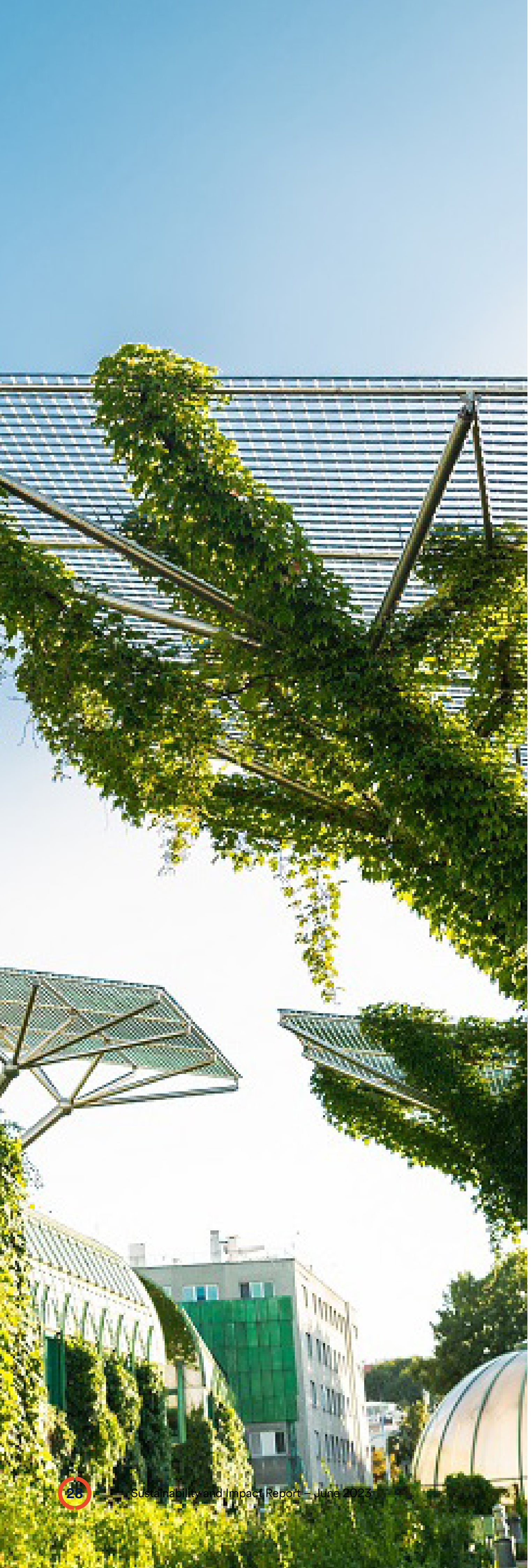
Investing in the energy transition across Europe

Objective

BelEnergia is an Italian IPP developing and operating solar, wind and biomass projects. BelEnergia is a key Italian player in energy transition, participating in the European energy independence and promoting circular economy principles through its waste-to-energy activity. In July 2021, a vehicle managed by Schroders Capital invested €50m to finance the growth of BelEnergia. It was the opportunity for Schroders Capital to partner up with top notch expert entrepreneurs in project scouting, project development, EPC, operations and project financing, with a strong industrial know-how. Since then, Schroders Capital's infrastructure equity team has signed a new transaction with BelEnergia with the closing in May 2022 of the 49% acquisition (€9m) from BelEnergia of a 21MW wind farm in Southern Italy built and operated by the company.

Sustainability and Impact

With a 2.6 GW pipeline of projects, BelEnergia aims at playing a significant role in reducing European greenhouse gas emissions by developing renewable projects in Italy, France, and Spain. The Group is closely working alongside local stakeholders in order to promote projects that support social and economic developments of the concerned areas.



4.4 Engagement activities and reports

At group level, Schroders has a significant Active Ownership activity, which can be reviewed in more details here.

Our dedicated Engagement/Voting report for our Infrastructure equity activity is available here.

In the absence of control over the companies in which we invest (e.g. debt investments), engagement offers in essence less opportunities on our Infrastructure debt activity especially as we act under buy and hold strategies. Nevertheless, we do our best to engage with our counterparts in the due diligence phase and during the monitoring period on ESG matters we feel most relevant and appropriate.

We are also engaging on certain transactions in specifically designing ESG covenants with associated margin ratchets that serve as direct incentives towards better ESG performance.

Finally, we do not have any disposal of investments to report in 2022 as a result of our Engagement activities.

4.5 Data availability challenge

The quality of S&I data – in terms of availability, relevance, integrity, usability, and completeness – remains a concern for all infrastructure markets participants to date. Yet, improving data availability and companies' disclosure of non-financial information is a remarkable lever to direct capital flows to sustainable investment as it would make it easier to measure, monitor and manage companies' performance and impact on society.

In 2014, the adoption of the Non-Financial Reporting Directive ("NFRD") set the EU on a clear course towards greater business transparency and accountability on social and environmental issues. As per the NFRD, the companies under the scope are the 500+ employees public interest entities, with securities admitted to trading on a EU regulated market, and a balance sheet of more than €20m or a net turnover of more than €40m. These companies are required to disclose non-financial information as part of their annual public reporting obligations:

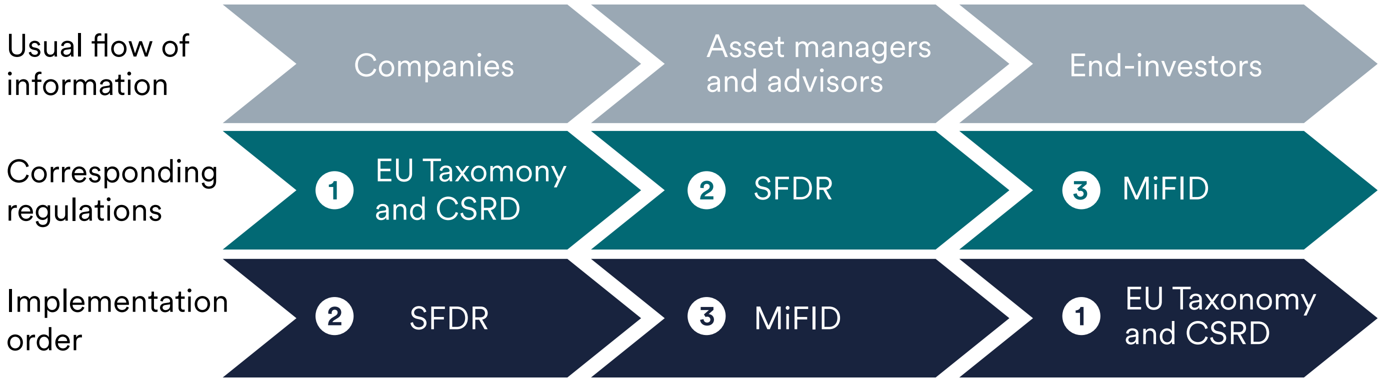
- Information about their business model, policies, outcomes, risks, risk management and key performance; and social responsibility and treatment of employees
- Key Performance Indicators (KPIs) relating to four key sustainability issues: environment, social and employee issues, human rights, and bribery and corruption
- Financial materiality (e.g. how climate change impacts a company's financial position) and the environmental and social materiality (e.g. how a company impacts the climate)

The Corporate Sustainability Reporting Directive ("CSRD"), which amends and precises the existing reporting requirements of the NFRD, constitutes the second step in this course towards greater non-financial disclosures. This regulation entered into force on 5 January 2023 and must be integrated into Member States' national laws within the next 18 months. The CSRD aims at, among others, extending the scope of NFRD to a larger number of companies and introducing more detailed reporting requirements. The new directive will apply to:

a. Large companies whether listed or not (i.e. ones that exceed two out of: a balance sheet total of €20m, net turnover of €40m, average number of employees during the financial year of 250)
b. Non-EU companies with substantial activity in the EU market (€150m in annual turnover in the EU) and which have at least one subsidiary or branch in the EU
c. SMEs with securities admitted to trading on an EU regulated market (other than listed micro-enterprises)

A company caught by the CSRD will need to publish an annual statement containing the following:

- Its business model as well as its ESG strategy and how it is being implemented, including:
  - Whether it is resilient to risks related to sustainability matters
  - The opportunities related to sustainability matters
  - Whether it is compatible with the transition to a sustainable economy and the international obligations under the Paris Agreement
  - Whether it takes into account shareholders' interests
- The targets related to sustainability matters set by the company and the company's performance against these targets
- The role of the management, administration and supervisory bodies with regard to sustainability matters
- The company's corporate culture and responsibility as well as information related to lobbying or other political engagements
- Information on the company's value chain, including its own operations, products, services, business relationships, and supply chain



To that end, EU sustainability reporting standards ("ESRS") are being developed by the European Financial Reporting Advisory Group ("EFRAG") and should be aligned with disclosure requirements and indicators in existing regulations (e.g. SFDR, Taxonomy). The first set of standards are expected to be adopted by the Commission in June 2023 and a second set in June 2024. Companies already subject to NFRD will be first to apply these new standards to reports published in 2024, covering financial year 2023, followed in 2025 by large companies not currently subject to the NFRD, and in 2026 by listed SMEs.

CSRD looks promising to strengthen the transparency on non-financial information in the market. However, its timing lags behind SFDR, as illustrated below.

We are actively working on resolving these challenges by:

- Engaging with companies we are invested in to assess the quality of their non-financial reporting to date and promoting CSRD
- Improving our data collection efforts by developing a reliable and comprehensive dataset to ensure comparability of data over time and between investments

4.6 Sustainability risks review and integration

Sustainability Risks is defined as an 'Environmental, Social or Governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment'. When looking at the sustainability risks, our analysis thus considers successively (i) the environmental sustainable risks, (ii) the social sustainable risks and (iii) the governance sustainable risks.

We have recently updated our internal sustainability risks guidelines to enable a more thorough due diligence thanks to a check-list of such risks.

Ideally, we would aim for a risk mapping with relevant risks identified (depending on the specificities of each contemplated investments) including description of the methodologies retained for such risks, relevant KPIs to assess and monitor such risks, any action implemented to mitigate such risks and finally the quantification of any residual risk (and associated time horizon).

However, at this stage, it remains very difficult to have a precise quantitative view of the impact of such sustainability risks on the investment and the corresponding data and associated methodology. Besides, magnitude of such residual risks, if quantified would be extremely low (unless specifically flagged and addressed accordingly) in our investment universe.

Therefore, to avoid any very unprecise quantification exercise, we currently focus our analysis on a more qualitative basis for a better relevance.

We nevertheless continue to review both internal standards within Schroders Group and market developments to reassess our guidelines accordingly.

4.7 Paris Agreement alignment strategy

As a business and an investor, we recognize that we have a responsibility to make sure we are on the journey to contribute to global net zero greenhouse gas emissions and that we are delivering investment performance for our clients over the longer term by contributing to a sustainable future.

In 2020, Schroders Group became a founding member of the Net Zero Asset Managers Initiative, a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. This commitment was just one step on the Group decarbonisation journey. In 2021, Schroders Group committed to the Science Based Targets Initiatives (SBTi), committing to align all in-scope assets under management (listed equities, corporate bonds, REITs and ETFs) to a 1.5°C pathway by 2040, with an interim target of 2.2°C by 2030. Schroders Group has further committed to have 100% of assets under management within our SBTi by 2040. In 2022, Schroders Group became one of the first 20 financial institutions to have its goals formally validated by the initiative. For more information about this journey, please see the Climate Transition Action Plan (CTAP) and SBTi verification announcement.

In 2022, the Group also invested significant time and resource to explore and attempt to baseline additional asset classes' emissions, including infrastructure. This exploration will continue into 2023, scoping methodologies for emissions estimates; assess and provide feedback on current decarbonisation pathway methodologies for target setting, amongst others.

We recognise that infrastructure has a significant role to play in the net zero challenge from both operational and embodied carbon emissions perspectives, with much of the remaining carbon budget already locked up within existing assets. Our Infrastructure debt and equity activities are part of this journey. Being able to rely on a consistent and systematic set of data remains a real challenge for our asset class, which we are currently tackling as a preliminary step through both engagement and proxy emissions.

4.8 Biodiversity

At Schroders Capital Management (France), we are aware that biodiversity is vital for the healthy functioning of ecosystems which in turn provide a multitude of goods and services that underpin our investments. These services, known as ecosystem services, include everything from direct goods such as food, energy, and medicinal resources, to regulating services provided by nature, such as water filtration, crop pollination, carbon sequestration, climate regulation, and flood protection, to name a few. These ecosystem services almost always go unpriced, resulting in their excess use. This has resulted in ecosystem decline and degradation as well as rising ecological scarcity. The Convention on Biological Diversity was adopted on June 5, 1992 in order to curve this trend. It has three main objectives: i) the conservation of biological diversity, ii) the sustainable use of its components, and iii) the fair and equitable sharing of the benefits arising out of the utilisation of generic resources.

As a global investment manager, Schroders Group has a responsibility to mitigate risks in its portfolios and use its influence to limit the pace of biodiversity loss. Its position in relation to the environmental management of its operations is detailed in the Group Position Statement issued in October 2022. As a member of the Natural Capital Investment Alliance and signatory of the Finance for Biodiversity Pledge, Schroders commit at Group level to:

- Eliminate exposure to commodity-driven deforestation in the companies held in the investment portfolios we manage by 2025
- Transition its managed assets to net zero by 2050 or sooner
- Develop investment strategies to support greater investment in natural capital protection and regeneration
- Manage and reduce the impact on biodiversity through its own business operations. As far as our Infrastructure activities are concerned, biodiversity is integrated into our decision-making process and considered during the due diligence phase. Any material risk to biodiversity loss is then monitored throughout the holding period of the investment

As part of the due diligence process, the Investment Managers will systematically address the biodiversity risks (dependencies and impacts) in their review and report main findings (qualitative and quantitative) in the Biodiversity section of the Investment memo. In particular, the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) database may be used (especially on greenfield projects) to assess the dual materiality of a sub-sector, with geographical views on various thematic maps on ESG factors.

In addition, we are aiming at identifying indicators (e.g. Mean Species Abundance[16]) and tools to measure biodiversity loss with a view to contribute to the reduction of the main pressures and impacts on biodiversity[17], as defined by the IPBES[18]. However and despite research conducted at Group level, few measurement tools are currently operational and adapted for the financial sector, namely the infrastructure sector, but developments are expected in a near future. We will analyse their relevance to our assets, and then decide how best to incorporate them.

4.9 Fossil fuel exposure

Considering the full value chain from exploration & production to transportation, storage and distribution, the share of companies operating in the fossil fuel sector represents 16.7% (in value) of the total portfolio as of 31 December 2022 (assuming, as the case may be, that 100% of the investment is considered, although some companies may only be partly operating in the fossil fuel sector).

4.10 EU Taxonomy

The EU Taxonomy Regulation was published on 22 June 2020 and came into force on July 12, 2020. Six environmental objectives have been defined:

- Climate change mitigation
- Climate change adaptation
- Sustainable and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

The Taxonomy sets performance thresholds (referred to as "technical screening criteria") for economic activities which:

- Make a substantive contribution to one of six environmental objectives
- Do no significant harm ("DNSH") to the other five, where relevant
- Meet minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights)

The performance thresholds will help companies, project promotors and issuers access green financing to improve their environmental performance, as well as helping to identify which activities are already environmentally friendly. In doing so, it will help to grow low-carbon sectors and decarbonise high-carbon ones.

The EU Taxonomy is one of the most significant developments in sustainable finance and will have wide ranging implications for investors and issuers working in the EU, and beyond. In practical terms, the Taxonomy Regulation provides a European methodology for determining economic activities falling within the "E" bucket of ESG. We believe that these new regulations and standards will help strengthen ESG as a core topic in our industry, which we view very positively.

Considering our investment universe (i.e. European infrastructure) and our strong ESG focus, we believe that a good share of our investments should be considered aligned with EU Taxonomy requirements (in particular, renewables, rolling stocks and waste/water utilities). However, due to the stringent criteria (including detailed technical standards) and the lack of consistent and reliable data, we have not been able to classify extensively our portfolio yet.

[16] MSA compares the actual abundance of native species in a given ecosystem to their (estimated) abundance if the ecosystem would be in an undisturbed state.
[17] Habitat destruction, invasive species, pollution, climate change and over exploitation of species.
[18] An intergovernmental organization to improve the interface between science and policy on issues of biodiversity and ecosystem services (it belongs to UN).

"Sustainability & Impact is critical to our aim of providing Essential Infrastructure and Sustainable Performance"

Frédéric Brindeau,
Head of Infrastructure Asset Management and ESG

Key risks

Interest rate risk for fixed-rate instruments:

interest rate volatility may reduce the performance of fixed-rate instruments. A rise in interest rates generally causes prices of fixed- rate instruments to fall

Deterioration of the credit quality of the bond:

caused by a change in the market environment (for commercial activities) or a change in law/regulation (for all infrastructure activities)

Risk of issuer default:

a decline in the financial health of an issuer can cause the value of its bonds to fall or become worthless

Sustainability risk:

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 the investment

Prepayment risk:

the capital may be repaid by the borrower before reaching maturity

Exchange rate risk:

where assets are denominated in a currency different to that of the investor, changes in exchange rates may affect the value of the investments

Illiquid and long term investment risk:

due to the illiquid nature of the underlying investments, an investor may not be able to realise the invested capital before the end of the contractual arrangement (which is likely to be long term). If the investment vehicle is required to liquidate parts of its portfolio for any reason, including in response to changes in economic conditions, the investment vehicle may not be able to sell any portion of its portfolio on favourable terms or at all

Capital loss:

the capital is not guaranteed and investors may suffer substantial or total losses of capital

Greenfield risks:

in contrast to 'brownfield' investments, investments in 'greenfield' infrastructure assets expose investors to additional risks, in particular construction risk (e.g. construction delays, cost overruns, etc.) and deployment risk (e.g. capital being deployed in several instalments during construction period rather than upfront for brownfield investments).

Trade cancellation risk:

trades and settlements are made on a bilateral, negotiated basis. A last-minute trade cancellation can occur in the absence of standard trade and settlement processes via clearing houses

Service provider risk:

investments can be at risk due to operational and administrative errors, or the bankruptcy of service providers.

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