SUSTAINABILITY & IMPACT REPORT

Schroders Capital Management (France)

31 December 2023

Report (according to Article 29 of Energy Climate law) issued in June 2024

Schroders capital

Introduction

With $94bn in total assets under management ("AUM") as of December 2023, Schroders Capital is the private markets investment division of Schroders Group and 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.

See more information on Schroders Capital Sustainability and Impact[1].

Part of Schroders Capital, Schroders Capital Management (France) ("SCMF") is a portfolio management company specialising in infrastructure debt and equity investment. It is regulated by the AMF under the Alternative Investment Fund Managers Directive and is authorised to manage alternative investment funds ("AIFs"). Based in Paris, France, it is an essential part of Schroders Capital. SCMF invests in debt (total outstanding of €3.1 billion at 31 December 2023) and equity (total net assets value of €1.3 billion at 31 December 2023) in various infrastructure sectors, such as transport, conventional and renewable energy, telecommunications and social infrastructure. The sustainable and impact investment strategy applies to the debt and equity activities noting that for equity advisory investments, not all associated processes may be applicable given the bespoke nature of this activity.

This report has been prepared pursuant to Article 29 of the Law on energy and climate of 8 November 2019 and its implementing decree no. 2021-663 of 27 May 2021, amending Articles L. 533-22-1 of the Monetary and Financial Code. It presents the sustainable investment strategy of Schroders Capital Management (France) SAS with LEI 969500AC72S8PU1IXO32 (hereinafter referred to as "**SCMF**" or the "**Company**") for the period 01/01/2023 to 31/12/2023.

The structure of the document reflects the requirements described in Article 1 of the implementing decree.

All elements presented in this report cover the period from 01/01/2023 to 31/12/2023 and may be subject to subsequent amendments from time to time.

[1] Schroders' capital sustainability and impact policies and reports (here):
https://www.schroderscapital.com/en/global/professional/sustainability-and-impact/policies-reports/

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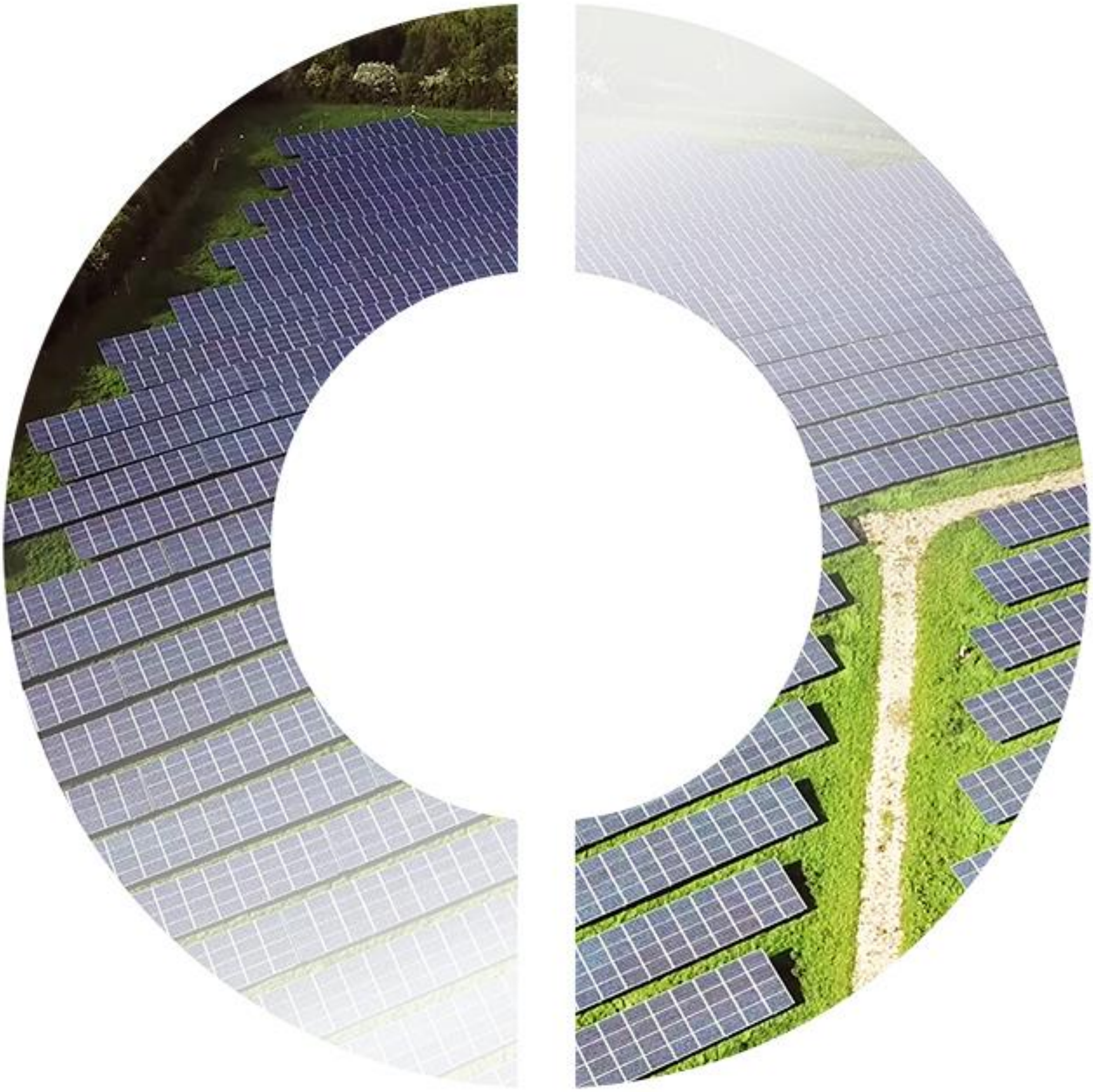

SECTION 1

General approach of the entity

Section 1 General approach of the entity

1.1 General policy for integrating Environmental, social and Governance ("ESG") criteria into the investment strategy

i. General approach of Sustainable and Impact ("S&I") strategy

At Schroders Group level, environmental, social and governance factors are fully integrated into the investment decision making. Additionally, the Group has developed investment products and strategies with sustainability or impact characteristics or objectives, leveraging on the extensive experience of its impact investing specialist BlueOrchard. See more information in our Schroders' Global S&I Product Framework.[2]

At SCMF level, we focus on providing investors with access to developing and established infrastructure opportunities across all sectors in Continental Europe and UK mid-markets, both through infrastructure equity and debt (junior and senior). In particular, we invest in core infrastructure assets with long economic life and long-term cashflow visibility (5-30 years), adequate risk adjusted returns and capacity to weather inflation and market downturns. Our three main investment themes are: essential infrastructure, energy transition and digital transformation.

We have established S&I investment as an integral part of our activities. As a long-term asset manager specialized in infrastructure investments, we recognize the importance of integrating ESG considerations throughout the entire investment cycle (from 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. As a precautionary measure at the time of implementation of SFDR, all our funds were classified as Article 6 product. Since then, all our in-scope new funds have been classified as Article 8 product.

We are looking at a broad range of projects as long as ESG impacts, risks and opportunities can be identified and meet our S&I 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 S&I considerations into our investment process, we expect to see stronger long-term risk adjusted returns. Our S&I 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.

ii. Integration of the E, S & G criteria in the investment strategy

ESG 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.

Overview of the process

- Deal Sourcing and Origination phase: We favour investments with strong ESG credentials and United Nations Sustainable Development Goals ("UN SDGs") alignment, and we apply negative screening and exclusions lists.
- Selection phase: We perform a preliminary S&I assessment of the transaction that consists in highlighting any negative ESG factors (based on preliminary information package) that would require further analysis during the due-diligence phase.
- Due-diligence phase: We carry out a thorough review of the due-diligence package and report findings into our internal proprietary ESG Scorecard ("RIAM[3]") in order to issue an ESG scoring. The Head of Infrastructure Asset Management and ESG circulates his/her sustainability opinion ahead of the investment committee.

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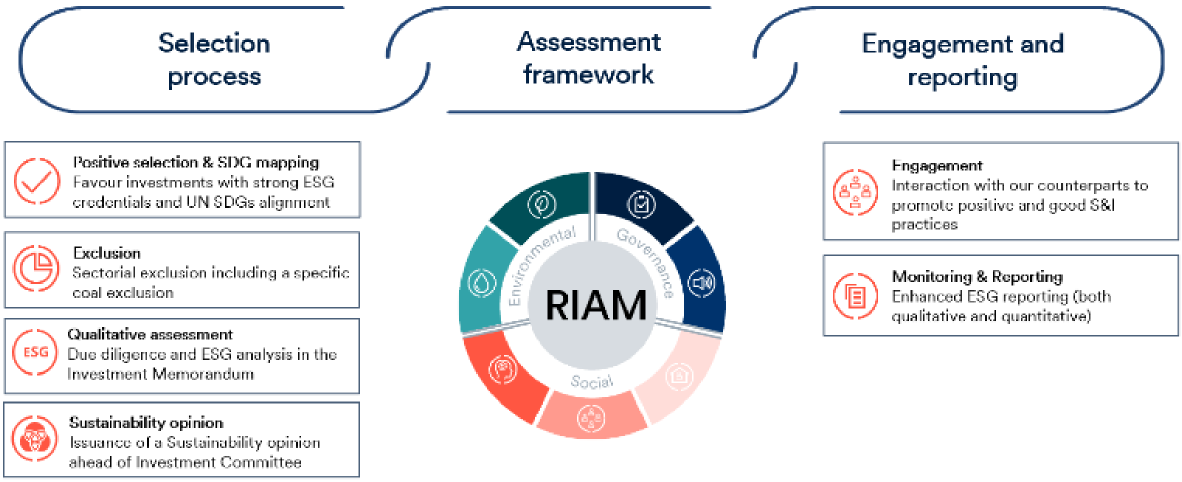
[2] Schroders Global S&I Product Framework: https://www.schroders.com/en-be/be/professional/our-sustainability-and-impact-framework/

[3] RIAM (Risk and Impact Assessment Model) is a proprietary ESG model that focuses on both ESG risks and SDG impacts.

– Execution and ongoing monitoring phase: We report any noticeable ESG-related issue on quarterly basis, and collect information on an annual basis to monitor S&I performance at portfolio level. Where relevant and appropriate, we engage with our portfolio companies.



The investment analyst/associate and the fund manager are in charge of collecting and analysing ESG data in the investment memorandum. These data are sourced from dedicated ESG due diligence reports, annual reports, company websites or specialised third-party reports.

Only investment opportunities that meet SCMF's financial, economic and S&I expectations are presented to the investment committee, which then decides whether or not to invest.

For each investment, a section of the investment memorandum is dedicated to S&I and covers the questions raised during due diligence, notably including an assessment of the ESG risks, and a review of the sustainability risks (both physical and transitional risks), the contribution to sustainable transition, and the biodiversity impact based on our dedicated internal guidelines. This section is reviewed and discussed systematically by the Head of Infrastructure Asset Management and ESG who issues a sustainability opinion before an investment opportunity is presented to the Investment Committee. Any major findings and relevant updates are also reported in our quarterly communications to investors.

Presentation of the ESG Scorecard ("RIAM")

The ESG Scorecard consists of a proprietary tool used to identify and assess the ESG characteristics of an investment, as well as its contribution to UN SDGs. The ESG characteristics are assessed both through risks and performance.

The first pillar of the scorecard is built around an analysis of ESG characteristics associated with the asset and its underlying activities. The list of ESG risks and characteristics identified is based on the UN PRI for infrastructure investments. The risks categories of the scorecard are split into three sections and 22 sub-risks categories covering environmental ('E'); social ('S'); and governance ('G'). An ESG questionnaire has been developed to identify key considerations for each risk category. In addition, we divided the infrastructure universe into identified asset types, providing the appropriate granularity needed to translate the ESG characteristics pertaining to different sectors. The scoring weights associated with each risk category and type of assets have been informed by (i) third-party frameworks, including UN PRI, Sustainability Accounting Standards Board ("SASB")[4] and Task Force on Climate-related Financial Disclosures ("TCFD")[5], and (ii) internal analysis and research.

The second pillar of the scorecard analyses the contribution of the investment opportunity to UN SDGs. The ESG Scorecard uses a framework mapping, built on internal and external methodologies, aligning a list of business activities with SDG goals and underlying targets. The SDG framework is common to all investments, follows a multidimensional alignment principle (i.e. activities can be linked to one or several SDGs) and aims to provide a fair and quantified (via a numerical scale) representation of the strength of alignment (i.e. may be positive or negative).

[4] See more information about SASB: https://sasb.ifrs.org/

[5] See more information about TCFD: https://www.fsb-tcfd.org/

The first (ESG characteristics) and second (SDG contribution) pillars of the ESG Scorecard are then aggregated to calculate the final ESG score on a dual (equivalent) scale:

- between 1 (best ESG characteristics) and 7 (poorest ESG characteristics) applicable for our funds and mandate launched before Jan 1, 2024
- between 0 (poorest ESG characteristics) and 100 (best ESG characteristics) applicable for our funds and mandate launched after Jan 1, 2024.

Our scorecard considers the "land use" factor by differentiating brownfield projects (redevelopment of existing land) and greenfield projects (development of new land). Greenfield projects are assigned a higher weighting for biodiversity-related risks and are also required to conduct an impact assessment.

Impact on portfolio construction decisions

The investment team may decide to exclude investment opportunities due to inadequate business model or sector before presenting the investment opportunity to the investment committee.

For example, we have rejected investments into:

- the extension of a regional airport in the UK;
- a Dutch natural gas pipeline operator;
- an Italian liquid bulk storage facility;
- the construction of a new cruise terminal in Ravenna, Italy;
- a coastal oil storage operator;
- two State-owned German airports;
- a European ports operator.

In addition, the ESG Score will determine whether an investment opportunity is eligible to our funds classified as Article 8 under SFDR regulation (ESG Score should be, for funds and mandates launched before Jan 1, 2024 maximum 5 out of 7 or minimum 33.33 out of 100 for funds and mandates launched after Jan 1, 2024). When relevant, we may carry out further due diligence to test eligibility for an Article 9 product.

Finally, our funds have diversification guidelines in terms of sector, geography and debt format that may affect final portfolio construction decisions.

1.2 Content, frequency and means used by the entity to inform investors about ESG criteria

SCMF is committed to providing the best and most comprehensive information on environmental, social and governance quality criteria factored into the investment policy and strategy and publishes a number of key documents for clients and other third parties[6], which are available on our website, and more precisely as follows:

- **SFDR disclosures and statements**[7]: 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:
  - **Sustainability risks report (Article 3);**
  - **Principal Adverse Impact report (Article 4);**

[6] SCMF Important information: https://www.schroderscapital.com/en/global/professional/footer/important-information/infrastructure-france/

[7] SFDR disclosures and statements: https://www.schroders.com/en-lu/lu/professional/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/

- Remuneration policy[8].

– **Engagement Policy/Voting policy and report[9].**

– **A yearly S&I report published for each fund managed and/or advised:** the S&I reporting is available for interested stakeholders at fund and mandate level, based on relevant S&I KPIs for the underlying transactions.

1.3 List of the financial products mentioned in respect of Articles 8 and 9 of the SFDR

As at 31 December 2023, SCMF had under management total debt outstanding assets of €3.1 billion and total equity net assets value of €1.3 billion, of which:

– 51.9% (€2.3bn) in Article 6 funds in accordance with SFDR regulation;
– 14.3% (€0.6bn) in Article 8 funds in accordance with SFDR regulation;
– 33.8% (€1.5bn) invested in financial products which are not in the scope of SFDR regulation.

Please also refer to Appendix 1 for more information.

1.4 Initiatives and corporate sustainability commitments

i. Collective initiatives at Schroders Group level

To improve sustainability standards across sectors and promote the development of sustainable and responsible investment within the industry, Schroders Group supports and collaborates with various industry groups, organizations, and initiatives. The Group's involvement with industry bodies and its work in public policy allows it to drive the sustainability agenda at a market level. These efforts help shape industry best practices, new governance norms, and reporting practices. Here are some of Schroders Group's commitments: UN Global Compact, UN PRI, Paris Pledge for Action, Green and Social Bond Principles, Carbon Disclosure Project, Transition Pathway Initiative, UN Race to Net Zero, Natural Capital Investment Alliance. A full list of Schroders Group commitments is available on our website[10].

ii. Corporate Social Responsibility (“CSR”) initiatives at Schroders France

SCMF premises being part of the Schroders France office, team members have to comply with Schroders Group policies (including CSR policy) applicable in all its facilities. SCMF’s CSR policy derives from a number of incentives put in place by Schroders Group.

In particular, a CSR working group was created among the entities hosted by the Paris Office (SCMF, Schroder Real Estate Hotels, Schroder Investment Management Europe).

This working group, designated as Corporate Social Responsibility Forum, has been very active in 2023 in organizing various actions, totalling 250 participants and €42k collected. Key initiatives are listed below:

– Conference on Environmental and Social Crowdfunding: This conference aimed to raise awareness among teams about the experience and strategies involved in crowdfunding sustainable projects from the general public;

– PROXITE[11]: This association, based in Ile de France, specializes in supporting young high school and middle school students through tutoring programs. Colleagues shared their professional journey and

[8] Schroders Group remuneration policy: https://www.schroders.com/en-lu/lu/professional/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/

[9] SCMF engagement and voting policy: https://www.schroders.com/en-lu/lu/professional/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/disclosures-and-statements/

[10] Schroders Group commitments: https://www.schroders.com/en-gb/uk/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/industry-involvement/

[11] See more information about PROXITE: https://www.proxite.com/

partnered with PROXITE to engage employees in long-term actions with high school and middle school students;

- International Women's Day interview: The forum interviewed a female colleague in a leadership position within the company to discuss the challenges of gender equality in the workplace and share her career journey in a predominantly male environment, such as finance;
- Earth Day speaker: Jérémie Pichon shared his family's experience of living a "nearly" zero-waste lifestyle during an event organized on Earth Day;
- The founders of the Biodiversity Collage[12] visited the organization to provide training on biodiversity, ecosystems, and ways to preserve them to the employees;
- Presentation on systemic risks and resilience strategies: the expert Arthur Keller presented strategies to address systemic risks and encouraged all teams to reflect on collective solutions to mitigate them;
- Testimony from Ilena Caye, a twelve year old who shared the challenges she faces in her daily life due to her disability and her determination to change society's perception of people with disabilities.

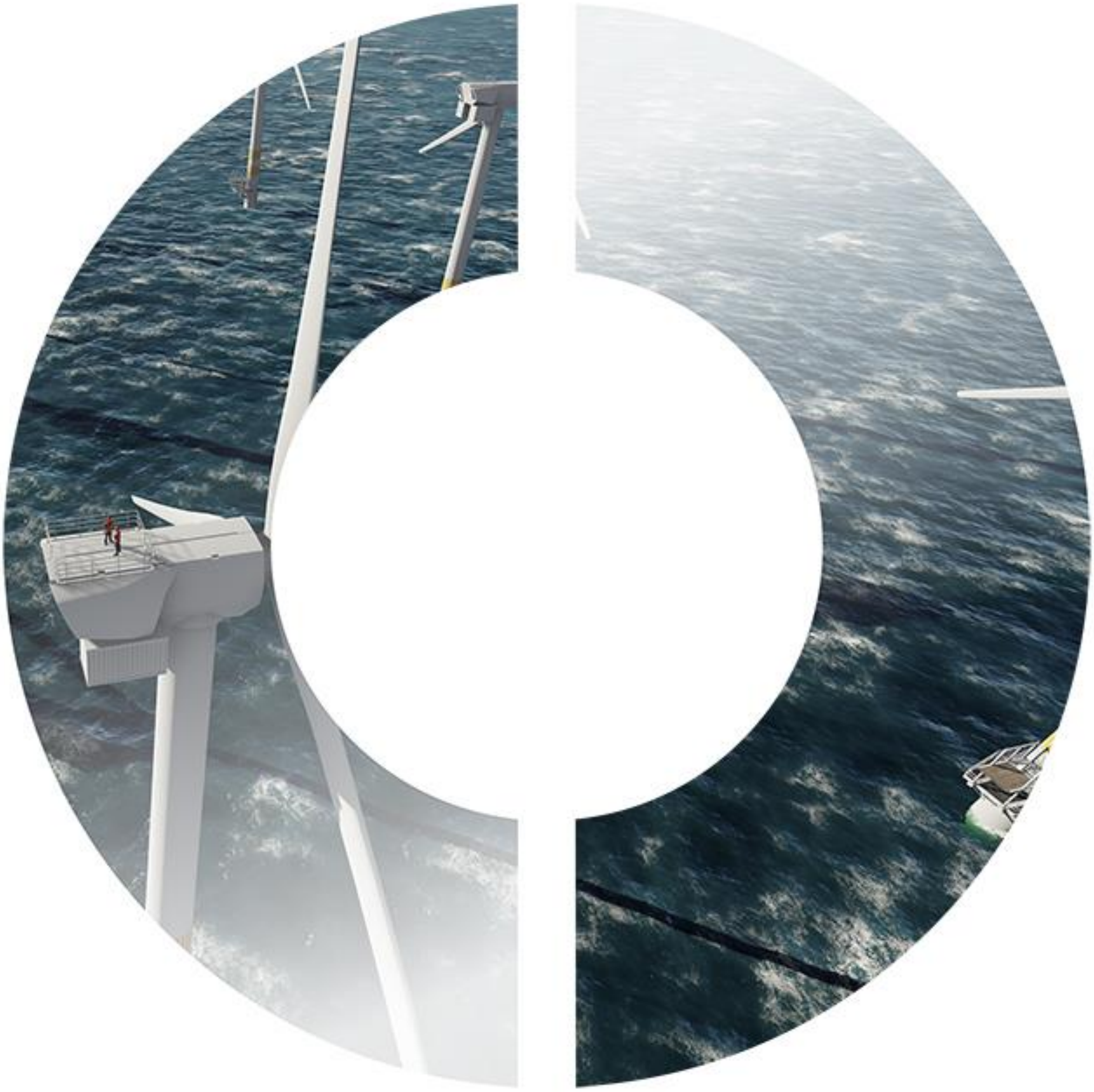
The actions carried out by the CSR Forum also include volunteer days: over fifteen employees participated in food collections at a supermarket and food distribution with Chorba, an association that helps the less fortunate.

Throughout the year, the CSR Forum identifies causes to allocate donations from employees of Schroders in line with the yearly initiatives. For example, Solidarité Femmes was supported on International Women's Day, and Noël à l'hôpital was supported to provide gifts to hospitalized children and healthcare staff during the Christmas period. In addition to these one-time operations, fundraising events such as races or walks were organized on three occasions to support associations such as ELA, AFM Téléthon, and Institut Gustave Roussy.

SCMF is also committed to minimizing the carbon and ecological footprint of its employees in its daily operations. It has a policy of encouraging the use of environmentally friendly transportation by subsidizing public transport costs and promoting green mobility (e.g. bicycles). SCMF employees are also encouraged to:

- Recycle materials (computers, paper, glass, etc.): Joyeux Recycleurs program is implemented, and communication is conducted to engage employees in recycling efforts;
- Use sustainable modes of transportation: a sustainable mobility package is offered to all employees by the Human Resources department, and bike racks are installed in the parking area;
- Limit paper usage: employees are required to badge in order to print, and printers are set to default to black and white double-sided printing.

[12] See more information about Biodiversity Collage: https://www.fresquedelabiodiversite.org/en.html



SECTION 2

Internal tools and workforce deployed

Section 2 Internal tools and workforce deployed

2.1 Human and technical resources devoted to the implementation of ESG strategy

Schroders Group has been actively involved in our overall investment processes. As at December 2023, the team at Group level comprises over 50 dedicated ESG professionals who are responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability client reporting, and product development. The team is led by Andrew Howard, Global Head of Sustainable Investment who is also a member of Schroders Group Management Committee. As team head, he oversees the overarching approach to ESG integration, active ownership, sustainability research and tools, reporting and product strategy.

Schroders Capital (the private assets investment division of Schroders Group) has also established a dedicated S&I team composed of the Head of Sustainability and Impact assisted with a project manager, a sustainability counsel, a climate specialist and a S&I investment analyst. This S&I team provides support and oversight on:

- ESG policies, procedures and guidance;
- ESG frameworks, scorecards and tools;
- Climate integration data, tools and reporting;
- ESG regulation and product governance;
- ESG monitoring and risk management.

At SCMF level, the ESG related activities involve directly or indirectly several teams and individuals: we estimate that the human resources dedicated to implementing the ESG strategy at SCMF level represent c.8% of the total FTEs at 31 December 2023.

We are not able to provide precise euro amount and percentage of budgets allocated to the provision of ESG data considering the integration within Schroders Group.

2.2 Our ambition statement

To strengthen internal ESG capabilities and demonstrate its S&I commitment, SCMF is implementing significant measures:

- Trainings: to reinforce our internal ESG capabilities, and in addition to trainings available at Schroders Group level (including a sustainability curriculum) as well as the organization of the Biodiversity Collage training in the Paris office in 2023, employees and management are offered to pass the CFA Institute Certificate in ESG Investing[13] (the cost of such certification being fully borne by SCMF, i.e. ~€800 per person). The CFA certificate and learning materials were developed by leading practitioners for practitioners, and have been recognized by the UN PRI. We are pleased to report that as at December 2023 all associates and analysts in the debt investment team have completed their CFA certification in ESG Investing (or are due to have it completed within 1 year of hire for latest joiners).
- Technical resources: the S&I Committee at SCMF level is in close communication with the S&I teams at Schroders Capital and Schroders Group level who help in conducting research and provide guidance around new regulations and the latest topics in the world of sustainability.

[13] More information about CFA ESG Investing Certificate: https://www.cfainstitute.org/en/programs/esg-investing

SECTION 3

Integration of ESG quality criteria at entity-governance level

Section 3 Integration of ESG quality criteria at entity governance level

3.1 Knowledge, skills and experience of the governance boards

i. Supervisory framework

The SCMF S&I Committee develops and oversees the S&I strategy, policy and practices at SCMF. This Committee meets on a quarterly basis and is chaired by the Head of Infrastructure Asset Management and ESG. In particular, the purpose of the S&I Committee includes the following:

- Provide a forum for sharing of S&I news and information relevant for SCMF activities;
- Review initiatives at Schroders Group and Schroders Capital level;
- Discuss new product offerings from a S&I perspective;
- Review and approve SCMF S&I Policy, Reports and Processes. In particular, the S&I Report and the Article-29 report on Climate Energy Law will be reviewed on a yearly basis;
- Ensure appropriate level of awareness within SCMF 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;

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

Finally, a S&I update is regularly prepared to the attention of SCMF Supervisory board ahead of each regular Supervisory Board.

ii. People

The S&I Committee of SCMF is composed of 6 members with experiences, as detailed below:

Frédéric Brindeau, Head of Infrastructure Asset Management and ESG

Frédéric has been the Head of Infrastructure Asset Management and ESG for SCMF since December 2019. He is responsible for defining, implementing and monitoring the S&I policy with regards to Infrastructure debt and equity. He has more than 25 years of experience and has developed specific knowledge about S&I, including:

- Designed the proprietary ESG Scorecard and oversaw the integration of S&I into the investment process of SCMF.
- 10 years of experience in the project finance team of Dexia, where he was in charge of arranging major offshore wind park financings (C-Power, Borkum, Global Tech I).
- 6 years of experience at Crédit Agricole CIB as Senior Business Manager in aeronautics financings, then as Co-Head of rail financings. He notably participated in defining the strategy of Crédit Agricole CIB with regards to the financing of European rail projects.
- 3 years at the French Development Agency as Investment Director, where he focused on the financing of essential infrastructures in emerging markets.
- Master in Management, Audencia; Master 225 in Corporate Finance and Financial Engineering, Université Paris Dauphine.

Yves Desjardins, CEO of SCMF

Yves Desjardins joined Schroders Group in 2015 as Sales Manager, then as country head of Schroders from 2020. He has been the CEO of SCMF since 2023.

- 20 years of experience in asset management, including 12 years at HSBC as Sales Manager and 3 years at Sinopia as Equity trader.

– Bachelor's and Master's degrees from Paris 13 University.

Jérôme Neyroud, Deputy CEO of SCMF and Head of Infrastructure Debt

Jérôme Neyroud has been the Head of Infrastructure Debt and Deputy CEO of SCMF since 2015. Jérôme created and has been running SCMF infrastructure debt business since inception.

- 3 years of experience in the infrastructure debt team of Axa where he set up the infrastructure debt business and successfully deployed c. €1bn of capital a year.
- 10 years at Dexia as Project Manager (2002 – 2008) and Director (2008 – 2012) where he was responsible for origination, execution of advisory and arranging mandates in energy and infrastructure finance.
- 4 years in the origination team of Société Générale.
- Master degree, Ecole Nationale des Ponts et Chaussées (ENPC Paris Tech).

Arnauld Schaefer, Head of Infrastructure Equity Investment

Arnauld Schaefer has been the Head of Equity Investment of SCMF since 2017. He is responsible for supervising the SCMF infrastructure equity business.

- 23 years of experience in Mergers & Acquisitions, Capital Markets and Financial Restructuring.
- Master degree, Télécom Paris; Master degree, Ecole Polytechnique.

Michel Cojean, Head of Risk

Michel Cojean has been the Head of risk of SCMF since 2018. He oversees risk management processes within SCMF and ensures mitigation measures exist and are operative for all risks (investment, operational and corporate risks) within the activities of the company.

- 6 years as Managing Director of association AEFR, a think tank on financial regulation, and 3 years of experience as senior advisor in European Affairs & Infrastructure Finance team of Paris Europlace.
- 24 years of experience at Dexia in various senior positions (Deputy Head of Risk, Head of Credit for Project, Asset and Structured Finance, Head of Credit for Infrastructure and International Municipal Finance).
- 6 years of experience at Chase Manhattan Bank, notably in the Corporate and Structured Finance team.
- Master in Business Law, Paris Pantheon-Assas Law University; Master in Economics and Public Law, IEP Paris Political Science Institute; Master in Finance, HEC Paris Business School.

Jean-Luc Koffi Vovor, Head of Compliance

Jean-Luc Koffi Vovor has been the Head of Compliance of SCMF since 2022. He is responsible for ensuring good adherence to our policies and regulations which includes among other things sustainability and impact.

- Demonstrates engagement to S&I not only as part of duties at Schroders but also through outside the business advocacy engagements in promoting impact investing in the emerging markets.
- 5 years of experience at OTCex Group where he created a Compliance Department as part of an overall project of creating and strengthening the Global Control Functions Division.
- 32 years of experience in the financial and investment industry and has been in Compliance and related roles since 2009 including 5 years as Head of Internal Control and Compliance for a captive asset management firm of a cooperative bank leader in solidarity finance.
- Master Degree in Applied Economics, Research Master of Sciences[14] in Corporate Strategy, Paris Dauphine University.

[14] DEA : Diplôme d'Etudes Approfondies is the degree sanctioning the first year of the PhD studies

3.2 Integration of sustainability risks in remuneration policies

In line with SFDR article 5, Schroders Group has published a remuneration policy report[15]. This policy sets out the principles and procedures for taking ESG integration into account. The assessment of sustainability factors and risk across managed assets is a component of remuneration decisions for investment teams. The Remuneration Committee and the Board of Schroders Plc review the remuneration strategy annually, taking into account the underlying strength and sustainability of the business, as well as reports on risk, legal, compliance, and internal audit matters.

As part of Schroders Group and in line with SFDR article 5, SCMF is applying this policy in its own policy[16]. SCMF is also ensuring compliance with the AIFM Directive requirements for all AIF Material Risk Takers ("AIF MRTs").[17]

3.3 Integration of ESG criteria into the by-laws of the entity's board of directors or supervisory board

Considering that SCMF is integrated into Schroders Group, we refer in this section to policies that apply at the Group's Board level[18].

Schroders Group internal policies require that members of the board of directors adhere to a duty of loyalty, confidentiality, and ethics. Furthermore, to ensure utmost neutrality and efficiency, all non-executive directors are independent in terms of character and judgment. In addition, directors must ensure that their other commitments do not create conflicts of interest or significantly interfere with their responsibilities to the company. These principles aim to promote informed and responsible governance.

The Board also recognizes the importance of collectively possessing a wide range of skills, expertise, industry knowledge, and relevant experience to effectively oversee the activities of the Group. Board appointments are based on merit and objective criteria, including skills, independence, expertise, relevant knowledge, and experience, while also considering the benefits of diversity. The Board is convinced that ongoing training and regular information provided to directors contribute to better assess ESG issues and implement responsible and sustainable practices.

Finally, the Board acknowledges the significance of diversity beyond gender and ethnicity. Specific diversity objectives are set by the Board during the annual review of the people strategy. In particular, Schroders group will only engage with executive search firms that have committed to the Voluntary Code of Conduct on Gender Diversity[19].

[15] Schroders Group remuneration policy report: https://www.cfainstitute.org/en/programs/esg-investing

[16] SCMF remuneration policy: https://www.schroders.com/en/global/individual/corporate-transparency/disclosures/remuneration-disclosures/

[17] See more information about UCITS and AIF MRTs framework: https://mybrand.schroders.com/m/916ea85b84fae2f2/original/UCITS-and-AIFM-Remuneration-Framework-July-2019.pdf

[18] Schroders Group Corporate Governance Guidelines: https://www.schroders.com/en/global/individual/sustainability/corporate-sustainability/sustainability-governance/

[19] Schroders Annual Report and Account: https://www.schroders.com/en/global/individual/sustainability/corporate-sustainability/sustainability-governance/

SECTION 4

Engagement strategy

Section 4 Engagement strategy

4.1 Our voting & Engagement policy

At Schroders Group level, Schroders has a significant Active Ownership activity[20].

At Schroders Capital level, the engagement policy is detailed in Schroders Capital Engagement Blueprint[21].

At SCMF level, we believe it is important to understand how ESG risks and opportunities are being appropriately considered and managed in our investments. This means that active ownership and engagement are often essential components of the screening and due diligence phase of our engagement process. We also take a pro-active approach to managing our infrastructure equity and debt investments (advised and managed). When relevant and appropriate, we engage with our portfolio companies and counterparts in relation to S&I topics in a number of important ways, as summarised hereafter:

i. Infrastructure equity

Principles of the shareholder engagement policy:

During its investment process, the management company conducts an in-depth analysis of each of the investment opportunities, which gives it a detailed understanding of its characteristics:

- The strategy of the target company/asset;
- The current and target capital structure, where applicable;
- The economic and financial performances;
- The extra-financial performances such as the social;
- Environmental and governance impact;
- The investment's risk profile, which takes into account both the industrial risks of the asset in its market, as well as the market risk itself;
- The exercise of voting rights and other rights attached to the shares.

This analysis, which begins with a dialogue with the target company, is formalised in an investment note submitted to the Investment Committee for decision.

This investment process is also an opportunity to engage in an exchange with the various stakeholders in the project such as the joint shareholders, employees, local authorities, the regulator, etc.

Lastly, any situation identified as a potential conflict of interest will be addressed in keeping with the management company's conflicts of interest policy. The purpose of the shareholder engagement policy is to implement the principles set out above.

Framework for exercising voting rights:

SCMF exercises its voting rights on all the companies and funds on which it is in charge of the management and for which it holds voting rights.

All resolutions proposed at the general meetings are submitted to the team responsible for the investment and the monitoring of the participation.

The team may leverage on the due diligence work performed ahead of the investment process. The analysis of the resolutions focuses on:

- Operational and financial performance and risk monitoring; - non-financial performance linked to environmental, social and governance criteria;
- The exercise of voting rights and other rights attached to shares; - the quality of the dialogue with other shareholders;

[20] Schroders Group Active Ownership: https://www.schroders.com/en/global/individual/sustainability/active-ownership/

[21] Schroders Capital Engagement Blueprint: https://www.schroderscapital.com/en/global/professional/sustainability-and-impact/policies-reports/

- Communication with relevant stakeholders;
- The prevention and management of actual or potential conflicts of interest.

Voting rights are exercised in the interest of the clients holding shares in the companies and funds managed by SCMF, and without taking into account the own interests of SCMF.

SCMF has a procedure to prevent, detect and manage situations of conflicts of interest. In the event of the identification of a potential conflict of interest, the Head of Compliance and Internal Control (RCCI) will be asked to intervene. If necessary, in consultation with the investment team, this potential situation would be managed within the framework of the management company's conflict of interest policy.

SCMF prefers to effectively participate in general meetings of shareholders, at least by conference call. However, SCMF may give a proxy with voting instructions to the Chairman or to the legal entity in charge of the administration and legal secretariat of the company.

Lastly, SCMF does not have a securities lending activity.

Voting guidelines[22]:

The investment teams vote according to the following principles for each type of resolution proposed.

Decisions resulting in an amendment to the articles of association:

SCMF generally endeavours not to take a stake in a company's capital without having a veto on the amendment of its articles of association.

SCMF's vote depends on the consequences of the proposed statutory changes with regard to the interests and rights of the shareholders it represents and their potential impact in terms of ESG.

Approval of the financial statements:

SCMF generally issues a positive vote in favour of the resolutions presented. However, the management company is attentive as to whether the financial information presented to shareholders is transparent, truthful, complete and consistent. Schroders Capital Management (France) only approves the accounts to the extent that the statutory auditors have not made any special reservations and that the financial information is sufficient.

Allocation of profits:

The dividend distribution policy must be adapted to the company's long-term financial capacity and must ensure a balance between all stakeholders and within the company's social climate.

Related party transactions:

The information on the arrangements between the company and its stakeholders, having a material influence, must be available and complete. Related party transactions must be entered into in the interests of all shareholders and under conditions deemed reasonable. Schroders Capital Management (France) votes on a case by-case basis with regard to the content and reason for the related party transactions as well as the information provided by the company to justify the interest of the arrangement.

Appointment of statutory auditors:

SCMF generally issues a positive vote on the appointment of the auditors. However, SCMF ensures the independence of the statutory auditors and the transparency of their fees.

Appointment or renewal of corporate officers and remuneration:

SCMF generally issues a positive vote on the appointment or renewal of corporate officers. However, SCMF may abstain or issue a negative vote if it considers that the appointments are likely to go against the interests of the company and therefore indirectly against those of its shareholders.

Regarding the remuneration policy, SCMF evaluates its transparency and consistency with the company's performance over the long term.

[22] SCMF Engagement and Voting policy: https://www.schroderscapital.com/en/global/professional/footer/important-information/infrastructure-france/

Environmental, Social and Governance resolution:

Environmental, social and governance resolutions are not common initiatives proposed by companies, and each company has a different level of maturity regarding these issues. SCMF supports environmental, social and governance resolutions when they remain within the scope of the company's corporate purpose and are part of an approach to combat climate change or protect biodiversity.

ii. Infrastructure debt

In the absence of control over the companies in which we invest, engagement offers in essence less opportunities on our infrastructure debt activity (i.e. no voting rights). Nevertheless, we do our best efforts to engage with our portfolio companies during the due diligence and monitoring phases on ESG matters which we feel the most relevant and appropriate. Infrastructure Debt key engagement themes:

Transparency and governance

- Implementation of an ESG investment policy and disclosure of core ESG performance indicators
- Increased asset-level non-financial data transparency and disclosure.

Climate change

- Ensure loan clauses comply with regulations.
- Implement Sustainable Linked Loans (SLL), Green loans, and Social loans with incentives for improved ESG performance.
- Encourage portfolio companies and counterparts to adopt policies that benefit to the environment.
- Implement exclusion policies and residual intervention modalities in sensitive sectors.
- Focus on transitioning to sustainable assets.

Human rights

- Ensure supply chain has a strong foundational approach to business and human rights, especially regarding workers, communities, customers and consumers.

Diversity & inclusion

- Increase data capture for gender and excluded populations.
- Increase the number of women on the board and management teams.

Our preference is to ensure we start the investment lifecycle with a strong sustainability foundation, through conducting robust screening and pre-investment due diligence. Given opportunities for exit may be limited, our due diligence is often about identifying investments and assets that already meet expectations or have the potential to improve to meet our sustainability and impact expectations through active ownership. It is essential that we have strong relationships, built upon trust, with our value chain partners to influence positive change.

However, we acknowledge that there are escalation methods available in private markets, and we may seek to apply them in appropriate cases. This can include situations where we have been unable to make progress towards our engagement objectives.

The methods and application of escalation in private assets are specific to the nature of the investment and its asset class, and not all methods will apply in every case. Some examples include:

- Limiting future funding, always in the best interest of our clients.
- External collaboration with other managers in insurance-linked securities (ILS) to enhance transparency and best practices in the sector.
- Expressing concerns through professional associations, ESG data organizations, and peer benchmarking, aiming to influence industry standards in real estate and private equity.

Given the “buy and hold[23]” nature of our investments, we do not have systematic divestment planned, but rather a regular review of our exclusion policies applied during the investment phase.

4.2 Results of our Engagement strategy

The “buy and hold” nature of our investments did not enable us to formally contemplate any divestment so far. However, in line with our policy to engage where relevant and appropriate, climate change has been a key focus area in 2023, particularly for transitional assets and old investments. See two examples of our engagement policy thereafter:

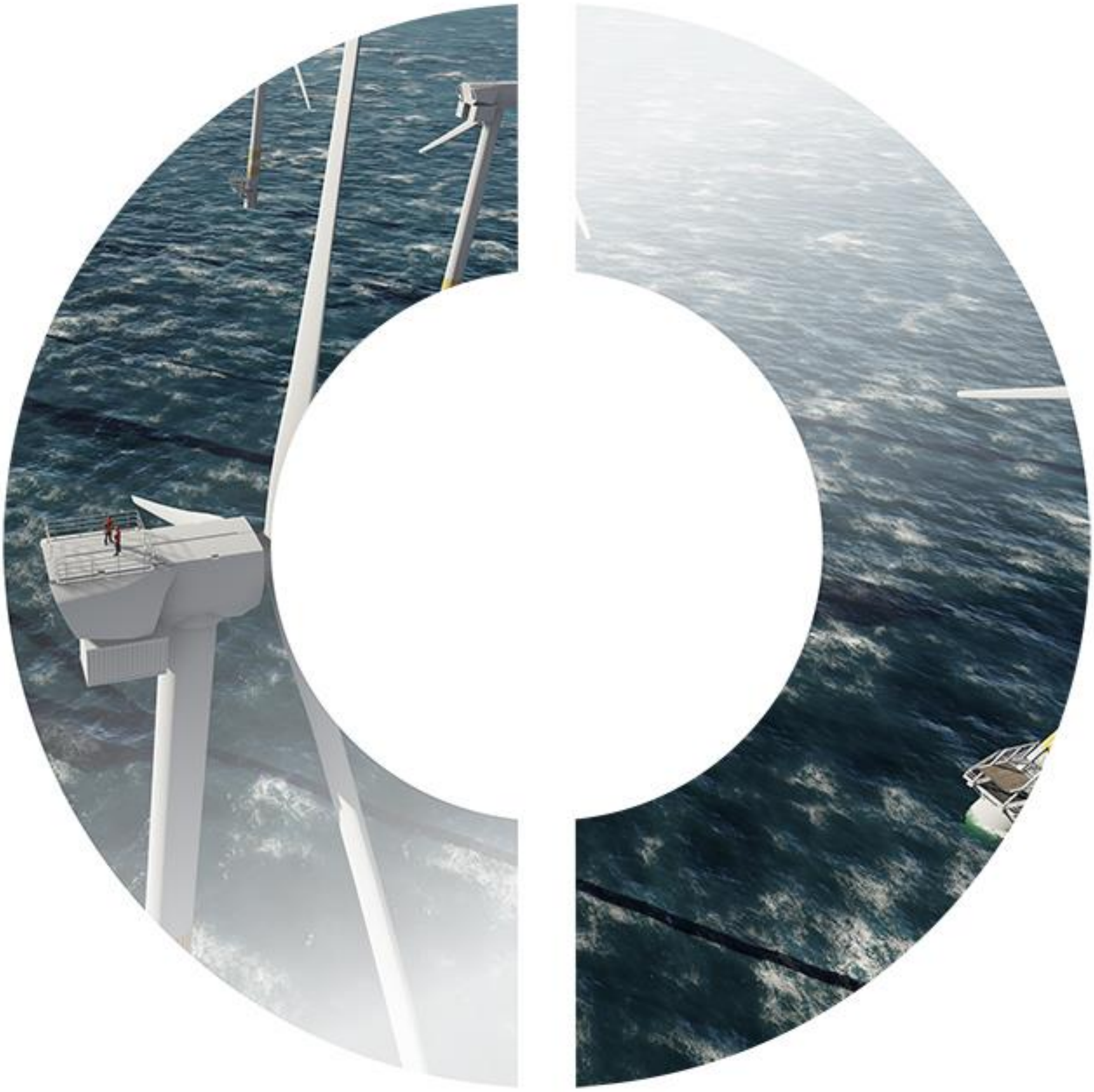
Case study: Project Coconut II (debt)

We were approached in 2023 for the refinancing opportunity of an investee company operating an oil pipeline network in Europe (invested through one of our investment vehicle launched in 2016). The investment decision was based on a business plan reflecting more stringent climate policy developments, with fossil fuel volumes decreasing as decarbonation regulations and incentives are gradually implemented. In addition, we engaged in a constructive and collaborative exchange with the sponsor which shared our concerns regarding the sustainable nature of the asset and the need to guide it towards best S&I practices. Through our active engagement, we managed to implement contractual amendments to better monitor the S&I trajectory of the asset (e.g. capex focused on S&I purposes; enhanced S&I information undertakings; monitoring of S&I indicators and KPIs), and to structure the investment as a sustainability-linked loan (ie. with operational KPI linked to margin adjustments).

Case Study: Project Lime (equity)

In 2016, we made an investment in an oil distribution company in France. Project Lime is a strategic asset for the French economy, playing a major role in energy security. Its business model is stable and resilient. However, Project Lime is facing significant long-term changes and needs to rethink its operations in anticipation of structural shifts impacting its core historical market. In the face of these challenges, it is crucial to implement immediate strategic changes and actively involve shareholders. As a result, we have defined four engagement steps: (i) redefining the strategy; (ii) setting the right objectives and mobilizing management and budget to achieve Project Lime’s transformation; (iii) reorienting M&A priorities; and (iv) revisiting the dividend and financing strategy.

[23] The investment logic consists of acquiring positions with the intention of holding them until maturity.



SECTION 5

EU Taxonomy and fossil fuel exposure

Section 5 EU taxonomy and fossil fuel exposure

The EU Taxonomy Regulation was published on 22 June 2020 and came into force on 12 July 2020. 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 EU 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. 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 EU Taxonomy sets performance thresholds (referred to as "technical screening criteria") for economic activities which:

- Make a substantive contribution to one of six environmental objectives. Initially, only the criteria relating to "mitigation" and "adaptation" environmental contributions had been drafted. On 13 June 2023, the European Commission published the final Environmental Delegated Act , which defines the technical screening criteria of the four last environmental objectives.
- Do not significantly harm ("DNSH") the other five objectives, 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 to 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 decarbonize high-carbon ones.

Until now, the majority of assets financed by SCMF have not been subject to transparency requirements for alignment with the EU Taxonomy Regulation under Article 1(2)(c). The quality of ESG data – in terms of availability, relevance, usability and completeness – remains an industry wide concern especially in private markets. But regulation is driving transparency through ("CSRD") that is expected to be a market change for ESG reporting as of 2025/2026. CSRD will require most, if not all our investee companies and borrowers to adhere to the new sustainability reporting standards), which is expected to significantly address the data transparency challenge in coming years.

As of the end of 2023, the reported and estimated eligibility rate under EU- taxonomy of the portfolio assets are shown below.

	Regulatory ratio (mandatory) based on counterparties' disclosures	Voluntary ratio (optional) reflecting estimates of counterparties'
% of total assets allocated to exposures on activities eligible under the taxonomy	7.8%	41.5%
% of total assets allocated to exposures on activities not eligible under the taxonomy	92.2%	58.5%

Figures in the above table are mostly based on responses to an internal questionnaire sent to our portfolio companies. It is important to note that these figures will evolve over time due to the emerging nature of these concepts and the forthcoming evolution of reporting obligations.

As at 31 December 2023, the share of companies operating in the fossil fuel sector[24] represents 12.7% (€0.6bn) of our total portfolio (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).

For more information, see Schroders Capital fossil fuel approach[25].

[24] According to the European Taxonomy, a company operating in the fossil fuels sector is a company primarily engaged in the exploration, mining, extraction, production, processing, refining, or distribution (transport, storage, and trading) of fossil fuels.

[25] Schroders Capital Fossil Fuel approach: https://www.schroderscapital.com/en/global/professional/sustainability-and-impact/policies-reports/

SECTION 6

Paris Agreement alignment strategy

Section 6 Paris Agreement alignment strategy

6.1 Our general approach to the Paris Agreement

Schroders Group is committed to the Paris Agreement's 1.5°C trajectory and has set targets for reducing greenhouse gas (GHG) emissions. the Group has publicly disclosed its internal alignment methodology based on the SBTi framework[26]. These results are annually presented at the group level in the TCFD reporting[27].

Temperature alignment is a significant focus area within our infrastructure business. Therefore, in addition to the targets set at the Group level, we are conducting preliminary studies at the asset management level on private asset financing in the infrastructure sphere. For instance, the CDP-WWF temperature rating methodology focuses on the targets a company has committed to, as the measure of temperature alignment. There are limitations to this methodology where investments are made at an asset / project level and so corporate targets are less prevalent. Within infrastructure, temperature alignment is better assessed through sectoral decarbonisation or carbon budget analysis as opposed to temperature rating. At present, SBTi offers limited methodologies within a sector context – mostly energy generation and parts of transportation – which is a limited component of our investible universe. Over the course of 2023, we have engaged with several data providers specific to infrastructure to understand the methodologies they have developed relating to alignment. We found limitations within each of these methodologies as well as a lack of compliance with SBTi, the chosen target setting initiative across Schroders.

More recently, we have taken an interest in a maturity scale approach – given it provides great flexibility in the assessment. The IIGCC has a Net Zero Investment Framework ('NZIF') for infrastructure, through this maturity scale approach; however, it still requires a level of sector budget or sector decarbonisation analysis to take place.

We would like to see further industry collaboration and agreement on a methodology for infrastructure and will continue to monitor any developments.

In addition, we have started to compute carbon footprint at funds level. To do so, we collect, on a best effort basis, the GHG emissions of the investee companies in our portfolio. In order to consider only the share of our investment in the total carbon footprint of the investee companies, we used an estimated attribution factor. This represents the share of the financing compared to the enterprise value of the company. This methodology of estimated attribution factor is based on the principles of the Partnership for Carbon Accounting Financials ("PCAF") methodology. The carbon footprint of the fund is then the sum of the "attributed" CO2 emissions of each investment.

6.2 Exclusion policy

On top of any client-specific exclusions, the investment team of SCMF applies the exclusion policy defined at Schroders Group[28] and Schroders Capital level[29] and detailed below:

General exclusions: We fully support the international conventions on cluster munitions, anti-personnel mines, and chemical and biological weapons. Accordingly, we exclude companies that we identify as being involved in the production, stockpiling, transfer and use of these weapons.

[26] See more information about SBTi framework: https://www.schroders.com/en/global/individual/sustainability/planet/

[27] Schroders Group TCFD reporting: https://mybrand.schroders.com/m/6f9278f6e769cbb2/original/Schroders-Climate-Report-TCFD-2023.pdf

[28] Schroders group Exclusion policy: https://www.schroders.com/en-gb/uk/individual/what-we-do/sustainable-investing/our-sustainable-investment-policies-disclosures-voting-reports/group-exclusions/

[29] Schroders Capital Exclusion policy: https://www.schroderscapital.com/en/global/professional/sustainability-and-impact/policies-reports/

Fossil fuel exclusions:

- Thermal coal mining: In 2023, Schroders Capital has developed an approach relating to thermal coal mining for private assets, given our potential direct exposure to energy-related assets through long-term investments. Our specific view relating to thermal coal mining is as follows:
  - No direct investment in new thermal coal extraction and production infrastructure and no financing to companies that are developing new or expanding their thermal coal extraction or production. Expanding capacity is defined as the overall increase in metric tons extracted year-on-year
  - Other services linked to the thermal mining industry; processing, inventory and storage are engaged with to understand their long-term strategy towards net zero and the majority are not investable on the basis of the inability to diversify or transition
  - Services linked to mining safety remain investible on the basis they provide a key social service. Services include land remediation, tailings stabilisation and water ingress
  - Engagement with companies involved in the transportation of thermal coal mining (rail, port or ship) to understand their current level of exposure. We expect companies with above 10% revenue from thermal coal mining to have an exit strategy to diversify their revenue base across numerous industries
  - Our phase out expectations and strategy planning are 2030 for OECD nations and 2040 for non-OECD nations
- Thermal coal power generation: Our approach to thermal coal power generation focuses on commitments to transition power generation assets in efforts to achieve net zero. Our approach relating to thermal coal power generation is as follows:
  - No direct investment in new thermal coal power generation infrastructure and no financing to companies that are expanding their capacity of coal power generation
  - Engagement with companies with existing thermal coal power generation assets to understand and develop decarbonisation and exit strategies by 2030 for OECD nations and 2040 for non-OECD nations
  - We allow for <5% of annual power generated from thermal coal without an exit strategy where it is not used consistently throughout the year and is held strategically as a backup power source
- Unconventional oil and gas: Our approach to fossil fuels at present only examines the unconventional oil and gas extraction and production industry[30] of the wider oil and gas value chain. Our approach relating to unconventional oil and gas is as follows:
  - No direct investment in unconventional oil and gas extraction and production infrastructure and no financing to companies developing new or expanding their unconventional oil and gas extraction and production
  - Engagement with companies involved in the extraction, production, refining, equipment and services of unconventional oil and gas to understand current exposure. The expectation is where revenue is above 10%, an exit strategy or decarbonisation strategy needs to be in place (by 2030 for OECD nations and 2040 for non-OECD nations)
  - Engagement with other value chain components including transportation, storage, distribution and retail is undertaken to understand exposure, given the difficulty in distinguishing the use of unconventional vs conventional oil and gas within these areas

[30] We define unconventional oil and gas as encompassing oil sands and activities within the Arctic Monitoring Assessment Programme (excluding Norwegian operations) for this document's purposes.

Case-by-case exclusions:

The investment team may exclude investment opportunities on a case-by-case basis, based on ESG concerns due to the business model or sector before seeking investment committee approval

For example, the investment team has turned down several potential investment opportunities based on ESG concerns: oil & gas storage company with significant share of activity related to trading, airports with significant capex program and biomass power plants (where biomass was extracted from non-sustainable sources)

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.

SECTION 7

Biodiversity alignment strategy

Section 7 Biodiversity alignment strategy

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 5 June 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 utilization 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[31]. As a member of the Natural Capital Investment Alliance and signatory of the Finance for Biodiversity Pledge, Schroders commit at Group level to:

- Develop investment strategies to support greater investment in natural capital protection and regeneration.
- 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.
- 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.

At SCMF level, we have also developed specific initiatives on biodiversity. Although the majority of SCMF's investments are in brownfield assets, i.e. with limited impacts on land use, we strive to:

(i) **Exclude investments related to the exploration, extraction and production of fossil fuels.** Climate change is a key concern for SCMF. As such, we have established a strict exclusion approach on fossil fuels (cf. Section 6 of this document).

(ii) **Integrate biodiversity considerations into our investment process.** As part of the due diligence process, we systematically address biodiversity risks (dependencies and impacts) and report the main findings (qualitative and quantitative) into our proprietary ESG Scorecard and dedicated biodiversity section of our investment memorandum. For instance, we favour projects that present an impact analysis and/or put in place avoidance / reduction / compensation measures to reduce their biodiversity footprint. We also check whether projects are located in protected area (e.g. Natura 2000, UNESCO) and assess sites' typology and biodiversity risks via external tools such as the Exploring Natural Capital Opportunities, Risks, and Exposure database ("ENCORE") [32]or the online tool developed by the World Wide Fund for Nature ("WWF")[33]. Finally, we recently upgraded our ESG Scorecard in order to better factor in biodiversity-related risks and opportunities. As such, biodiversity risks now account for [11-24]% of S&I risk score.

Building on these initial analyses and policies, SCMF has continued to develop its biodiversity strategy by identifying indicators (e.g. Mean Species Abundance) and tools to measure biodiversity loss, with the goal of contributing to the reduction of the main pressures and impacts on biodiversity as defined by the IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services). However and despite research conducted at Schroders Group level, few measurement tools are currently operational and adapted

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[31] Schroders Group Plan for Nature: https://www.schroders.com/en/global/individual/sustainability/planet/our-plan-for-nature/

[32] See more information about the ENCORE exposure database: https://www.encorenature.org/en

[33] See more information about the WWF Risk filter tool: https://riskfilter.org/water/home

for the financial sector, namely the infrastructure sector. The lack of a broad methodological consensus and data has prevented us from using a biodiversity footprint indicator to measure compliance with long-term international biodiversity targets. We hope that the effective implementation of the CSRD will help address the current data gap in the near future.

SECTION 8

Sustainability risks analysis and monitoring

Section 8 Sustainability risks analysis and monitoring

8.1 Main physical and transition risks

Sustainability risks are defined in the SFDR Regulation as environmental, social or governance events or situations which, if they occur, could have a material adverse effect, actual or potential, on the value of investments. More specifically, these risks can be segmented into physical risks, transition and liability risks.

i. Physical risks

Physical risks are defined as exposure to the physical consequences of environmental factors, such as climate change or loss of biodiversity. A distinction is generally made between (i) acute risks and (ii) chronic risks.

(i) Acute risks are one-off incidents linked to events such as cyclones or floods.

(ii) Chronic risks correspond to the longer-term evolution of the climate and its effects, such as the increasing scarcity of freshwater resources.

To mitigate potential losses, we analyse these risk factors in our ESG Scorecard. By integrating physical risks into our investment decision-making process, we aim to make informed and prudent investment decisions. We have identified the main physical risks faced by our infrastructure projects:

– Extreme weather events: infrastructure is vulnerable to environmental changes and weather disruptions. The location and type of infrastructure will determine the level of risk and potential increased costs due to disruptions and damages. Companies need to plan for current and future climate-related disruptions to maintain operational capacity.

– Energy-use efficiency and management: resource efficiency is crucial to prevent environmental degradation and mitigate climate change. It also enhances competitiveness through cost savings from improved efficiency, innovation, and resource management. Power generation assets need to focus on improving generation efficiency, considering regulatory standards and aging infrastructure.

– Water management: many infrastructure projects rely on water, either through consumption (direct utilization) or withdrawals (extraction from a natural source for a specific use). Water scarcity, high water stress areas, and water source or wastewater contamination pose risks that need to be considered.

– Infrastructure resilience: building infrastructure with resilience to withstand and recover from disruptions, such as natural disasters or climate-related events, is crucial to mitigate potential adverse effects.

We study the exposure of each investment to these risks and any associated action plans. We still tolerate a certain risk level in infrastructures that are not yet fully resilient to the impact of physical risks. However, we will only consider investing in highly exposed assets if a credible and concrete adaptation plan is in place.

ii. Transition and Liability risks

The growing awareness of climate change is creating regulatory, reputational, technology, market and litigation risks. To be noted that SCMF has little to no appetite for these risks and selects investments opportunities that are inherently resilient to that kind of risks. This is why SCMF has strict exclusions for fossil fuels, detailed in our exclusion policy.

We may refer on the TCFD (Task Force on Climate-related Financial Disclosures) transition risk framework[34] to identify the most important risks to consider into our analysis. The TCFD transition risk framework provides a comprehensive framework for assessing and managing transition risks associated with climate change.

We have identified the following main transition risks faced by our infrastructure projects:

– Regulatory risk: we closely monitor the intensification and complexification of the regulatory landscape related to sustainability issues. Carbon pricing and other climate-related regulations are important factors to consider in assessing the financial impacts on investments. This is why we have implemented strict exclusion policies on fossil fuels.

[34] TCFD transition framework: https://www.tcfdhub.org/resource/transition-risk-framework/

- Reputational risk: we are fully aware of the reputation risk associated with the high environmental and social impact of infrastructure projects. As such, our risk management processes are designed to minimize and control the impact of events that could damage our reputation. In particular, we conduct thorough research to identify existing or potential risks of controversy using the reputational tool RepRisk, that assesses and monitors ESG risks associated with companies and sectors.
- Technological risk: new technologies can replace old systems and disrupt existing economic systems. For this reason, we apply a selective approach, concentrating our investments on proven technologies that are compatible with or contribute to sustainable development.
- Market risk: increased awareness and understanding of sustainability issues can lead to changes in supply and demand within certain infrastructure sectors. This can manifest in various ways, such as consumers boycotting products or services from suppliers with inadequate environmental, social, and governance standards, or the adoption of more environmentally-friendly transportation options as a long-term trend. We focus on investing in infrastructure that offers essential and sustainable long-term services.
- Dispute risk: this relates to the risk of fines, sanctions, or losses of revenue or opportunities due to liabilities related to company's negative impact on climate change, the environment, and/or the society. We have identified the following main liability risks faced by our infrastructure projects:
  - Environmental policy and incidents: all infrastructure projects require environmental permits. Incidents, damages, and violations indicate weaknesses in environmental processes and risk management.
  - Business ethics, bribery and corruption: unethical business practices, corruption, or bribery can lead to investigations and legal actions by regulatory authorities or anti-corruption agencies.
  - Land rights, indigenous rights: conflicts related to land rights or indigenous rights can lead to litigation, legal actions, or disputes by local communities or human rights organizations.
  - Labour standards, diversity, and anti-discrimination: violations of labour standards, discrimination, or workplace harassment can result in litigation by employees or labour regulatory bodies.

8.2 Sustainability risks integration into SCMF's risk management framework

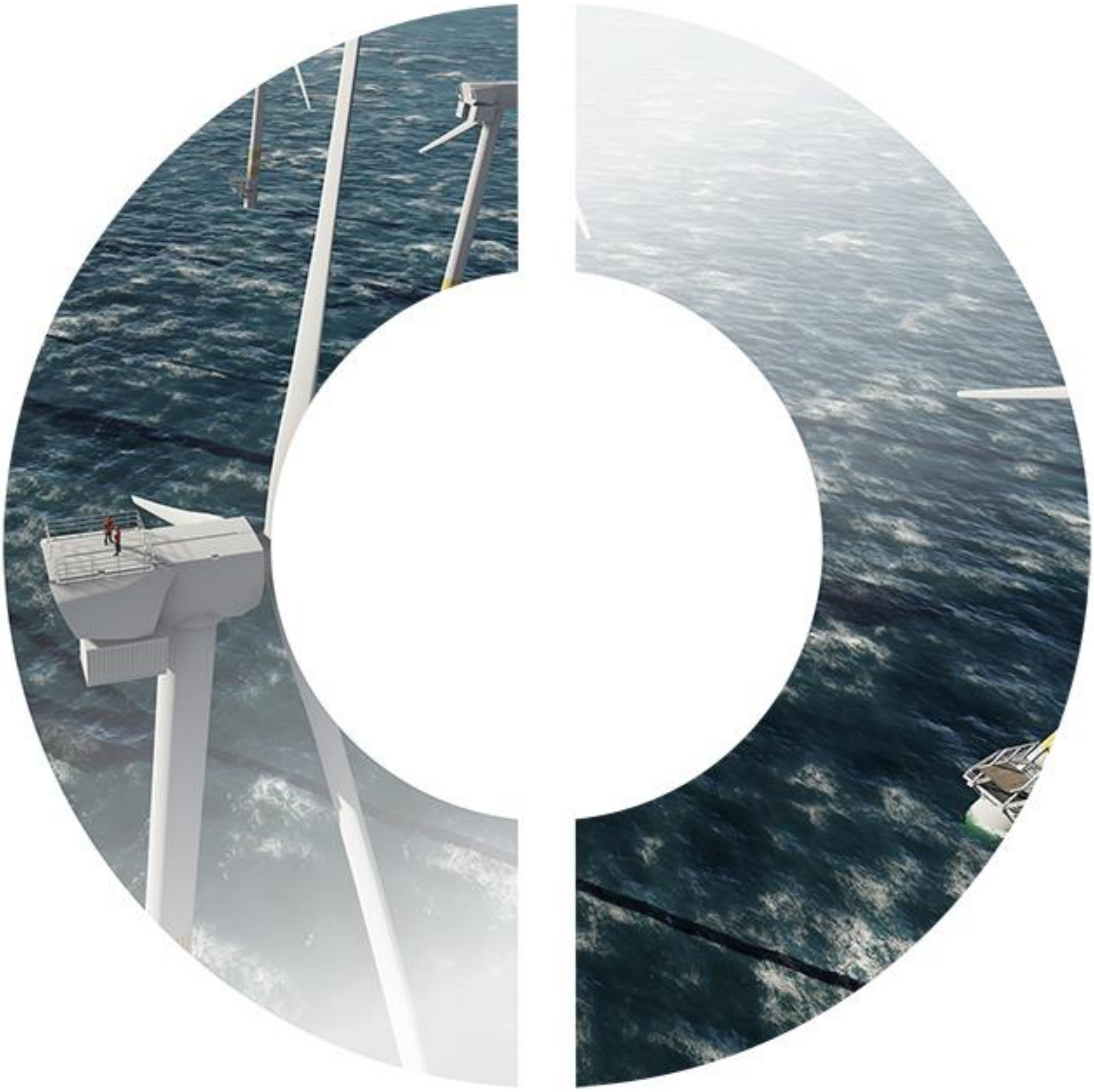
We have recently upgraded our ESG Scorecard in order to better factor in climate-related risks and opportunities mentioned above. As a result, we integrate these risks into our investment decision-making process. Each investment analyst is responsible for managing sustainability risks and reporting them in the investment memorandum. The risk management framework is reviewed annually, with collaboration between the S&I and Risk teams on these matters.

In addition, we have recently updated our internal sustainability risks guidelines to enable a more thorough due diligence thanks to a "risk check-list". Ideally, we would aim for a risk mapping depending on the sectoral specificities of each contemplated investment including: (i) description of the methodologies retained, (ii) relevant KPIs, (iii) mitigation plan implemented and finally, (iv) the quantification of any residual risk (and associated time horizon).

8.3 Main challenges and improvement measures

We continue to strengthen our current approach to incorporating sustainability risks. However, translating risks into financial figures remains a complex task. We are actively exploring methodologies to address this challenge. It is still difficult to have a precise quantitative view of the impact of sustainability risks on investments due to limited data availability and a lack of consensus on methodologies and models. Additionally, the magnitude of residual risks, if quantified, would be expected to be statistically very low in our diversified investment universe, unless specifically flagged and addressed. Therefore and to avoid hazardous systematic quantification exercises, we currently focus our analysis (i) on a qualitative basis to ensure better relevance and (ii) ad hoc stress test analysis when relevant data is available (ex stress on water inflows on hydro energy producer).

We consistently review our internal standards within the Schroders Group and monitor market developments to re-assess our internal guidelines accordingly. In addition, we closely monitor the development of new tools and hope that the CSRD will provide more actionable data for this type of analysis.



SECTION 9

Continuous improvement and corrective measures

Section 9 Continuous improvement and corrective measures

Sustainability is a complex and multi-faceted topic. It is also ever-changing, whether that be through new research, expanding data availability, regulation or government action. In this landscape, we cannot stand still and continue to evolve our approach.

However, the quality of ESG 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.

We are actively working on resolving these challenges by: (i) monitoring the progress of our portfolio companies to assess the quality of their non-financial reporting to date and align with upcoming CSRD requirements, and (ii) improving our data collection efforts by developing a reliable and comprehensive dataset to ensure comparability of data over time and between investments.

Subject to more consistent and reliable data and in order to improve our consideration of ESG criteria, we have established the following order of priorities:

- Implement a methodology for analysing and measuring the carbon footprint of our portfolio.
- Increase the coverage of EU taxonomy analysis.
- Improve our assessment and monitoring of sustainability risks.
- Explore physical climate / biodiversity data that is routed within geospatial analysis to improve specificity towards type of infrastructure project and more broadly.

Appendix 1 List of Article 8 and 9 financial products managed by the entity[35]

Name	Article
Schroders Capital Senior Infrastructure Debt Europe V SCSp SICAV-RAIF	Article 8
Schroders Capital Junior Infrastructure Debt Europe III SCSp SICAV-RAIF	Article 8
Mid Infra II SLP	Article 8

[35] As of 31/12/2023

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