

arcus

INFRASTRUCTURE PARTNERS

ESG POLICY

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GLOSSARY

AEIM	Arcus European Investment Manager LLP
AIP	Arcus Infrastructure Partners LLP
Arcus	AIP and its directly and indirectly controlled subsidiary undertakings
Contractor	An agency worker or an independent contractor required to provide services on Arcus premises under the instruction or supervision of an Employee or Member
Employee	An individual with a contract of employment with Arcus
ESG	Environment, Social, Governance
“ESG risk” or “sustainability risk”	an environmental, social or governance event or condition which, if it occurs, could cause an actual or a potential material negative impact on the value of an Investment
Ethics Committee	The ethics committee of Arcus as constituted from time to time pursuant to the Members’ Agreement
FCA	Financial Conduct Authority
Funds	AEIF1, AEIF2 and/or AET (as relevant)
GRESB	The Global ESG Benchmark for Real Assets. GRESB assesses and benchmarks the ESG performance of real assets, providing standardised and validated data
HR	The individual(s) with responsibilities for human resources matters within Arcus
Investment	Any investment made by any Fund or Managed Account from time to time
Investment Committee or IC	The investment committee of Arcus as constituted from time to time pursuant to the Members’ Agreement
Investor	The investors in the Funds and Managed Accounts
Managed Accounts	Any Arcus managed or advised investment vehicles (other than the Funds) established from time to time to hold an Investment
Management Committee or ManCo	The management committee of Arcus as constituted from time to time pursuant to the Members’ Agreement
Manager	The Arcus entity appointed from time to time as manager of the Funds and/or the Managed Accounts
Managing Partner	Any individual(s) elected to the role of managing partner or co-managing partner from time to time in accordance with the Members’ Agreement
Member	A member of AIP
Members’ Agreement	The agreement entered into by the Members on 7 July 2015 (as amended and restated from time to time)
OMT	The Origination Management Team responsible for coordinating Arcus’ activities relating to the origination of potential investment opportunities

SFDR	EU's Regulation on sustainability-related disclosures in the financial services sector
TCFD	Taskforce for Climate related Financial Disclosure
UNPRI	United Nations' Principles for Responsible Investment

APPLICATION

This policy and procedures described herein apply to:

- Arcus and its controlled entities and undertakings;
- Members; and
- Employees and Contractors.

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ESG POLICY

The purpose of this policy is to set out basic principles and minimum standards to guide Members, Employees and Contractors at Arcus in the conduct of their day-to-day activities. These documents form a critical element in ensuring that Members, Employees and Contractors are fully aware of Arcus' expectations of them. This policy is not intended to be a comprehensive guide to all ESG obligations, issues and opportunities. However, this policy is intended to promote and enhance our culture of responsible investing within the framework of ESG considerations.

Although Arcus, as a UK organisation, is not directly subject to the SFDR, Arcus acts as delegate investment manager to European structures which are subject to the SFDR. Section 3 of this policy also contains information on how Arcus integrates sustainability risks in its investment decision-making process in accordance with Article 3 of SFDR. Section 3.4 of this policy contains information on the approach towards consideration of principal adverse impacts of investment decisions on sustainability factors as referred to in Article 4 of SFDR. Section 5 of this policy includes information on how Arcus's remuneration policy is consistent with the integration of sustainability risks.

1 OBJECTIVES AND COMMITMENTS

Arcus is an experienced, innovative private investments team targeting European businesses with strong infrastructure qualities, unlocking alpha through dedicated investment management. Arcus aims to deliver attractive risk-adjusted returns and yield to its Investors over the long-term through careful selection and active management of European infrastructure assets. Arcus believes that the provision of high quality infrastructure is critical to Europe's future economic growth, environmental protection, societal development and reducing inequalities.

Arcus aims to consistently act in the best interests of its Investors and other stakeholders, and believes that ESG issues are relevant to infrastructure and can potentially impact the long-term investment returns of infrastructure portfolios. Incorporating ESG factors into our policies and procedures at Arcus, and within investee companies, helps us to identify both potential sources of risk, and opportunities to add value for Investors.

Arcus is supportive of the 2030 Agenda for Sustainable Development adopted by the United Nations Member States in 2015. Among the Sustainable Development Goals ("SDGs"), Arcus has a particular interest in supporting six of the SDGs: (i) Affordable and Clean Energy, (ii) Industry, Innovation and Infrastructure, (iii) Sustainable Cities and Communities, (iv) Responsible Consumption and Production, (v) Climate Action and (vi) Partnerships for the Goals. We are most likely to have the greatest impact on the SDGs identified as they are well aligned with our investment strategy and the long-term trends we see affecting our core European markets such as decarbonisation of the economy as a result of climate change, demographic shifts leading to rapid urbanisation and increasing telecommunication data usage.

Arcus is also supportive of social and environmental charitable activities and all Members, Employees and Contractors are encouraged to fund raise, volunteer and participate for any charitable organisations that they feel passionately about. Arcus supports individual volunteering, subject to it not unduly interfering with their role within the business, and provides "match-funding" for selected fundraising initiatives on an annual basis.

2 PRINCIPLES

Arcus is a signatory to and follows the 6 UNPRI Principles listed below:

- Incorporating ESG considerations into investment analysis and decision-making processes.
- Being an active owner and incorporating ESG issues into our ownership policies and practices.
- Seeking appropriate / relevant disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of the UNPRI Principles within the investment industry.
- Working with other co-investors to enhance our effectiveness in implementing the UNPRI principles.
- Reporting on our activities and progress towards implementing the UNPRI Principles to our Investors.

Arcus is also a signatory of the UN Global Compact and follows the 10 principles below.

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

At the time of this Policy's approval, the ESG issues that are seen to be most relevant to Arcus and the infrastructure industry in general include, but are not limited to:

- Health and safety;
- Environmental issues including air, land and water pollution;
- Resource use;
- Climate change;
- Employee engagement, retention and rights;
- Corporate governance;
- Cybersecurity;
- Business integrity;
- Conflicts of interest; and
- COVID-19 pandemic.

3 IMPLEMENTING OUR PRINCIPLES

3.1 ESG COMMITTEE

ROLE AND RESPONSIBILITY

The Management Committee has appointed a head of ESG and an ESG committee to assist it in managing matters relating to ESG, such as reporting, training, maintaining policies and driving Arcus' commitment to ESG.

HEAD OF ESG

As appointed by Management Committee, currently Neil Krawitz.

MEMBERSHIP OF THE ESG COMMITTEE

Arcus' ESG committee as constituted from time to time is currently comprised of Jenni Chan, Bansi Chudasama, Stephan Grillmaier, Ian Harding, Neil Krawitz and Shirene Madani.

ESG COMMITTEE INFORMATION

The ESG committee shall be supplied with information that it requires or requests in order to fulfil its role in ensuring responsible investment at Arcus. Reports and papers relevant to the agenda of each ESG committee meeting are to be circulated to the ESG committee in a timely manner in preparation for such meetings. Examples of information to be provided in advance of meetings or during the meetings include:

- Written/verbal updates of any previous agenda items or issues;
- Written reports from asset managers regarding their asset on a quarterly basis;
- Written/verbal reports on any ad hoc incidents; and
- Written training objectives and planning for Arcus Members and Employees.

ESG COMMITTEE TERMS OF REFERENCE.

Members	The ESG committee shall be formed of a minimum of four members as appointed by the Management Committee from time to time.
Attendees	Members and Employees who are not on the ESG committee may attend as and when required dependent on agenda items. Representatives of relevant business and support functions as requested by the ESG committee.
Frequency of meetings	The ESG committee shall meet on a quarterly basis or more regularly as required.
Quorum	Four
Voting	Simple majority
Minutes	Minutes of meetings will be recorded.
Regular Reports	Assistance with preparation of the asset managers' quarterly reports which are used in quarterly reports for Investors which are reviewed and approved by the IC. Updates on Arcus'/assets' management programme.

Terms of Reference

- Requirements:
- Maintain required policies and procedures;
 - To ensure an ESG continuous improvement programme is implemented and carried out at Arcus and asset level;
 - To assist origination teams integrate sustainability risks into their due diligence processes and present the sustainability risks related to those investment opportunities to the IC;
 - Ensure Arcus complies with the UNPRI Principles and UN Global Compact Principles;
 - Ensure Arcus and the relevant assets complete GRESB and UNPRI reporting on an annual basis;
 - Consideration and implementation of TCFD;
 - Consideration and implementation of the UK Stewardship Code;
 - Consideration and implementation, as required, of the EU Taxonomy Regulation and SFDR;
 - Ensure relevant training is provided to Members and Employees;
 - Review quarterly reports to Investors, the Management Committee and IC;
 - Prepare and manage Investor driven ESG requirements including preparation of the annual Arcus Sustainability Report;
 - Review ad hoc ESG matters on an incident driven basis; and
 - ESG due diligence materials / questions for any future investment and/or fund.

Review

The Management Committee should, at least once a year, review the ESG committee’s performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to implement any changes it considers necessary.

3.2 ARCUS-LEVEL ESG MANAGEMENT

Arcus seeks to monitor its portfolio exposure to key ESG issues through the ESG committee and risk management, and to actively manage all such risks and opportunities.

For each investee company, an asset manager is appointed and each asset manager is responsible for identifying and managing ESG risks in relation to companies for which he or she is responsible. Investment professionals within Arcus (including asset managers) receive training on ESG issues and are expected to periodically update their knowledge.

As part of Arcus’ risk management framework, quarterly risk reviews are collated by the head of compliance and risk and asset managers. The risk reviews include a section on ESG matters and so any “high” ESG risks/issues would be captured. The risk reviews for AEIF2 and Managed Accounts assets are reported to the Investment Committee on a quarterly basis and any urgent issues are reported on an ad hoc basis to all appropriate committees and Investors.

Any serious incident or issue at an investee company should be immediately raised by the asset manager with the Investment Committee and the ESG committee. The ESG committee will assist the Investment Committee in determining any course of further action if appropriate. Depending on the severity of the incident, the Investment Committee, with the assistance of the ESG committee, will also determine whether further escalation is required to, for example, the Management Committee and/or the relevant Investors.

A report will be issued, within the relevant quarterly and annual report(s), to Investors detailing a quarterly and annual summary of any ESG issues faced by investee companies managed by Arcus including sustainability risks, progress on achievements related to SDGs and a statement on the continued focus on ESG issues and responsible investing.

3.3 COMPANY-LEVEL ESG MANAGEMENT

Arcus has developed policies, procedures and programmes to assist the analysis, monitoring and development of relevant ESG considerations, including sustainability risks, throughout its investment process.

3.4 ADVERSE IMPACTS

The SFDR requires in-scope entities to make a “comply or explain” decision when considering the principal adverse impacts (“PAIs”) of its investment decisions on sustainability factors, in accordance with a specific regime outlined in SFDR.

The investment objectives and policies of the funds and accounts managed by Arcus do not generally provide for taking into account the principal adverse impacts of its investment decisions on sustainability factors in accordance with the specific SFDR regime and so Arcus does not seek to comply with that regime. Arcus does, however, consider the impact of its investments on sustainability factors to the extent described elsewhere in this Policy, including under “Exclusions” below.

3.5 EXCLUSIONS

Arcus will not invest in companies whose primary business constitutes the generation of power by coal, uranium or thorium or whose business is related to the production of cluster munitions, landmines and/or other similar weapons. In addition, no Investments will be made in Investee Companies that focus on certain excluded practices including, inter alia, child labour, weapons, animal experimentation, and gambling. Arcus will also ordinarily not invest in companies that:

- Have a history of poor safety or environmental management;
- Have a history of corrupt practices;
- Have poor governance and ethics practices; or
- Do not demonstrate the ability or willingness to manage current and potential ESG risks effectively, unless Arcus believes that by virtue of its involvement, it will be able to significantly improve the situation, and rapidly cause the investee company to conform to the principles laid out in this policy document.

3.6 PRE-ACQUISITION (ORIGINATION AND DUE DILIGENCE)

When reviewing potential investments, Arcus will consider relevant ESG issues, including sustainability risk, associated with those opportunities.

For reasons of good governance Arcus will pay particular attention to companies that operate, or have plans to operate in, difficult operating environments, e.g. countries where governance is known to be weak, corruption prevalent, and poor regulation and enforcement of environmental and social issues.

Arcus undertakes due diligence as part of its pre-investment process. As part of this due diligence process, all potentially significant ESG issues, including sustainability risk, and opportunities should be thoroughly analysed and identified by the OMT deal team, and the companies' management of those issues evaluated. At the beginning of the due diligence process, the deal team will discuss the identified ESG issues, including sustainability risk, and opportunities with a designated member of the ESG Committee to ensure application of a consistent, best practice approach. Where necessary, specialists should be used, for example, to assess whether sites are contaminated or to do an environmental impact assessment. Companies' exposure to, and management of, ESG issues, including sustainability risk, should be considered when making the final investment recommendation/decision.

While sustainability risks are taken into account when making an investment decision, sustainability risk would not by itself prevent Arcus from making any investment. Instead, sustainability risk forms part of the overall risk management processes, and is one of many risks which may, depending on the specific investment opportunity, be relevant to a determination of risk.

3.7 POST-ACQUISITION

Arcus' primary objective is to deliver returns to its Investors in line with its investment policies. Arcus believes in investing with a long-term view which creates sustainable value for Investors and portfolio company employees, customers and other stakeholders. With this objective in mind, it seeks to monitor and improve the management and performance of its investee companies including in relation to ESG issues. A part of this process is ensuring that companies manage all relevant ESG risks effectively and seeking to maximise value from ESG opportunities. ESG issues should be addressed on an ongoing basis post-investment through setting an ESG policy at asset level, monitoring compliance with such policy and supporting the governance and management systems that are put in place.

ESG is monitored at asset level through the risk and ESG reporting which the ESG committee and IC receives for review. Additionally, in the first quarter of each year the agenda for the asset review meetings for each asset is ESG including the following topics:

- The assets' overarching ESG policy and subsidiary policies;
- Key ESG risks and opportunities faced by each asset;
- Key ESG KPIs reported at board level and performance over time;
- Assessment of climate related risks and opportunities faced by each asset (further detailed in section 3.10);
- Status update on achieving SDGs identified by Arcus; and
- The areas each asset teams consider are targets for the ESG continuous improvement programme, including targets for improvement during the following year.

Should any ad hoc incidents arise throughout the year, asset managers should follow the reporting process as detailed in section 3.2 of this policy.

3.8 GOVERNANCE ISSUES

Once invested, Arcus will seek to put in place at portfolio company level governance structures and procedures that provide appropriate oversight in the areas of audit, risk management, and potential conflicts of interest, and to implement compensation and other policies that align the interests of owners and staff.

3.9 ENVIRONMENTAL AND SOCIAL ISSUES

Arcus also aims to put in place appropriate governance and reporting structures in portfolio companies with respect to environmental and social issues, with the goal of improving companies' performance and minimising adverse impacts in these areas.

Working through these governance structures, Arcus aims to ensure that portfolio companies comply with applicable laws and regulations on all relevant ESG issues, including business integrity, corporate governance, resource use and environmental protection, occupational and community health and safety, employment and security.

Arcus will also work with portfolio companies to identify and mitigate adverse ESG risks and impacts, by adopting best-practice standards and management systems, and encouraging continual improvement. Arcus also aims to encourage portfolio companies to identify ESG related opportunities to add value to the business, by, for example, creating operating efficiencies, building market share, enhancing their reputation, differentiating their brand, meeting bidding requirements, attracting and retaining staff and fostering sustainable supply chains etc.

3.10 CLIMATE CHANGE

Arcus requires Funds and Managed Account assets to monitor and review climate change risk annually. As mentioned in section 3.7, asset teams are expected to review all physical and transition climate change risks during the first quarter asset review meeting. The materiality of the risks to the business are considered by the ESG Committee and IC at the meeting and a summarised portfolio summary is presented to the IC.

Climate change risk is also reported to Investors on an annual basis, in line with the TCFD recommendations on climate-related financial disclosures. Reporting is structured around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. Where required, climate change specialists will be consulted to assist with TCFD requirements, such as climate forecast scenario analysis.

4 REPORTING, DISCLOSURE AND COMMUNICATIONS

Arcus monitors ESG matters through the quarterly risk reviews which includes an ESG section as detailed in section 3.2 above, and each report is also reviewed by the IC or Management Committee as appropriate.

Arcus will include a report on its approach, progress and ESG risk and opportunities within the annual and quarterly reports to Investors for the Funds, as also laid out in section 3.2 above. The ESG Committee will review each report in advance before it is approved by the IC as part of the annual/quarterly report sign-off process.

Where an ad hoc ESG related incident arises at Arcus, the Member or Employee concerned, or in an asset the relevant asset manager, should notify the Investment Committee and the ESG Committee as soon as reasonably practicable. Any communication to Investors about such incident will be reviewed and approved by the IC, with the assistance of the ESG committee before being released to Investors by the investor relations team. Arcus will also respond to ad-hoc questions on ESG matters from prospective and existing Investors or investment consultants.

Arcus is a signatory to the UK Stewardship Code, please see our response on our website.

The Modern Slavery Act 2015 is a piece of UK legislation which applies to Arcus. Arcus has a zero tolerance for slavery and human trafficking, please see the statement on our website.

At Arcus and our investee companies, through our acquisition due diligence procedures and ongoing asset management of investments, we endeavour to ensure no form of slavery, servitude, forced or compulsory labour or human trafficking takes place.

5 OBJECTIVES, ENGAGEMENT, TRAINING AND REMUNERATION

Members, Employees and Contractors at Arcus have annual objectives which include ESG components as appropriate for their roles. Individual performance is reviewed on achievement or otherwise of their objectives with financial and non-financial consequences for non-performance.

Members and Employees are required to complete an annual engagement survey which incorporates ESG related questions.

The ESG committee will organise annual training for all Members and Employees, including a post training assessment. The training will be reviewed on an annual basis and will cover the UNPRI Principles, UN Global Compact Principles along with any other relevant case specific examples and ESG related developments from Arcus and/or the wider investment industry.

Arcus has separately implemented a remuneration policy (the “Remuneration Policy”), which governs the processes concerning the payment of remuneration to Arcus’s Members and Employees. Arcus acknowledges that the Remuneration Policy, and an individual’s remuneration, must be consistent with and promote sound and effective management of sustainability risks. As a result and as described above Members and Employees at Arcus have annual objectives which include ESG components as appropriate for their roles and are required to comply with the Arcus ESG policy.

Under the Remuneration Policy, Arcus carries out an assessment of an individual’s performance, when assessing and determining remuneration. This assessment is based on both quantitative criteria (for example, financial performance of the business area for which the individual is responsible or within which he or she works) and qualitative criteria (for example, holistic assessment of general adherence to certain policies and procedures).

The oversight of performance reviews and assessment of remuneration is carried out by ManCo. The qualitative criteria used include, among others, whether the individual has met their specific personal objectives linked to the management of sustainability risks and whether the relevant individual has complied with Arcus’s sustainability policies, including ESG Policy as it relates to the integration of sustainability risks in investment decision making. The remuneration assessed (which may be in the form of variable remuneration) is dependent on the success or otherwise in the individual’s achievement of those factors in that review.

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