

RESPONSIBLE INVESTMENT TRENDS IN INFRASTRUCTURE

INSIGHTS FROM PRI REPORTING DATA



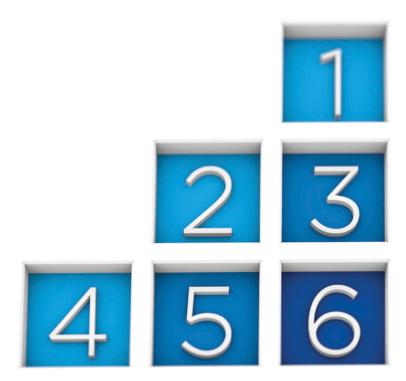


THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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EXECUTIVE SUMMARY

This report analyses data from the 2023 PRI Reporting Framework, focusing on insights from the policy, governance and strategy (PGS) and infrastructure (INF) modules. The findings highlight the breadth of responsible investment practices among infrastructure investors, but also point to some areas for improvement.

Infrastructure investments are inherently aligned with responsible investment principles due to their exposure to a range of potential environmental, social, and governance (ESG) risks, the potential impact the investments themselves have on ESG factors, and their long-term nature. This is reflected in the depth and breadth of responsible investment policies made by infrastructure investors, and the extent to which investors incorporate such commitments in Limited Partnership Agreements (LPAs) and other such constitutive fund documents.

Infrastructure investments may be particularly exposed to climate-related risks—both physical and transitional—necessitating a proactive approach to sustainability and climate resilience to safeguard asset value and operational continuity. The data suggests that infrastructure investors are taking positive steps in that regard relative

to the signatory base as a whole, for example in the use of climate scenarios and metrics. Practice on human rights is also more advanced, however there is room for improvement, particularly in relation to the use of the UN Guiding Principles on Business and Human Rights (UNGPs), a foundational baseline for investors to take action on human rights.

The data more generally highlights how infrastructure investors place an emphasis on detailed ESG due diligence and how the findings are integrated into decision-making, both pre- and post-investment. This points to the comprehensive way in which ESG risks and opportunities may be managed. However, the data also indicates areas for improvement; notably investors could:

- engage more thoroughly and effectively with stakeholders during due diligence;
- make better use of external verification and / or certification tools to support meeting targets on material ESG factors;
- use financial incentives (or penalties) to help build better alignment between investor and asset / portfolio company approaches to ESG.

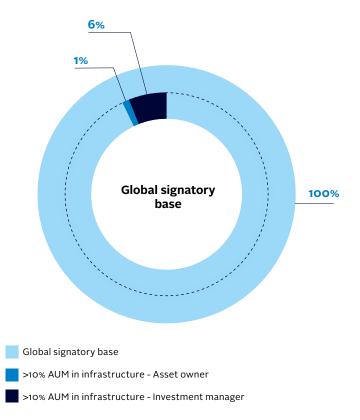
ABOUT THE DATA

POLICY, GOVERNANCE AND STRATEGY MODULE:

- The data analysed in this module was publicly disclosed by signatories during the 2021 and 2023 reporting cycles.
- The data covers signatories with >10% AUM in infrastructure, or 210 signatories.
- The data was highly correlated, yet it is important to note that this does not necessarily confirm causation, given the sample of investors have holdings across asset classes.
- There have been some changes in indicator wording from 2021 to 2023. Only data points considered equivalent across both reporting cycles have been analysed.

INFRASTRUCTURE MODULE:

- The data analysed for this module was publicly disclosed by signatories during the 2023 reporting cycle.
- The data covers signatories with >10% AUM in infrastructure, or 159 signatories.
- Where some questions are not applicable to the full sample, percentages have been calculated using as denominator the number of signatories for which the indicator is relevant / applicable.
- Asset owners did not report on asset class modules in 2023, meaning that the analysis covers only data from investment managers.

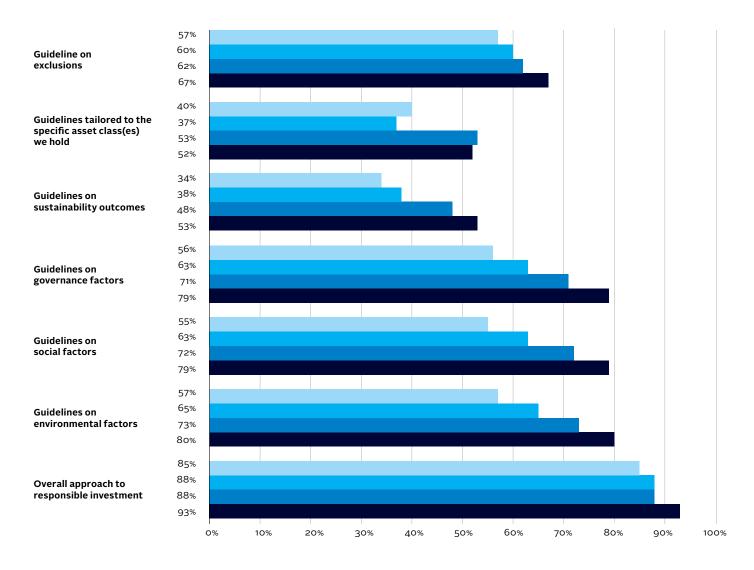


RESPONSIBLE INVESTMENT POLICY ELEMENTS MORE LIKELY TO BE PUBLIC

Infrastructure investors' guidelines on ESG and outcomes are more likely to be public than for signatories as a whole. This could be attributed to:

- the long-term nature of infrastructure investing;
- the range of ESG factors to which investments are exposed and may have an impact on.

Which elements of your formal responsible investment policy(ies) are publicly available?



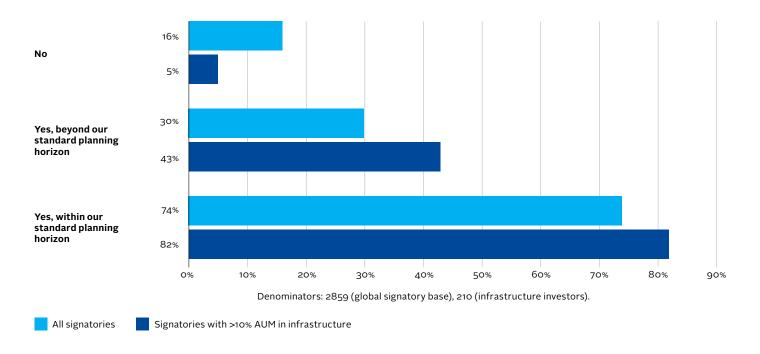


INVESTORS MORE ATTUNED TO CLIMATE RISKS AND SUSTAINABILITY OUTCOMES

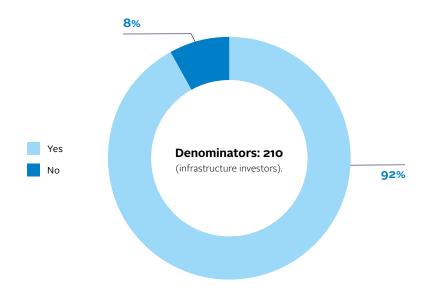
Investors in this asset class are more attuned to climate risks and sustainability outcomes than investors generally. This is likely because physical and transition risks have a significant impact on infrastructure investment, directly influencing asset values and operational resilience.

Similarly, the role of infrastructure in delivering essential public services ensures that investors may have a focus on a broad range of sustainability outcomes, e.g. access to energy and clean water.

Has your organisation identified climate-related risks and opportunities affecting your investments?



Has your organisation identified the intended and unintended sustainability outcomes connected to its investment activities? (Signatories with >10% AUM in infrastructure only)

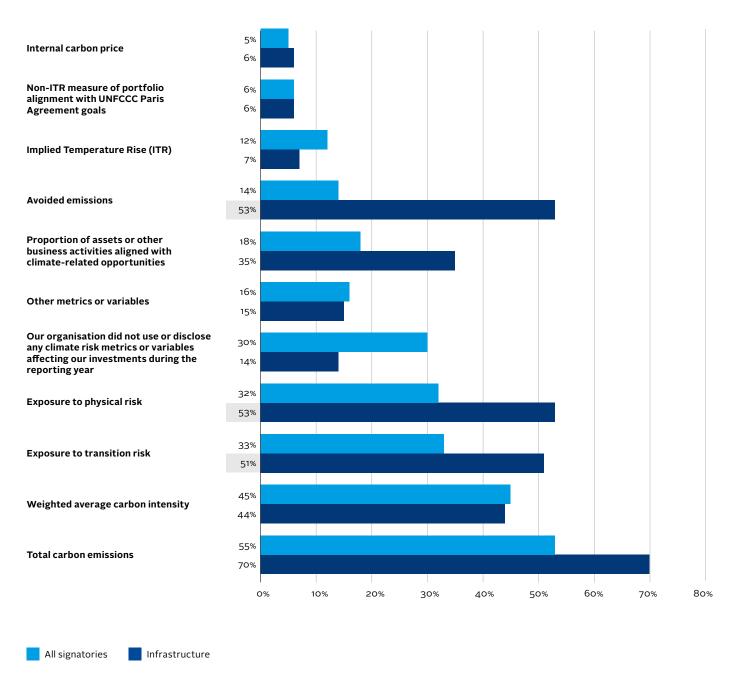


Source: Indicator PGS 41 (top) and PGS 47 (bottom)

INFRASTRUCTURE INVESTORS MAKE GREATER USE OF CLIMATE METRICS

Transition and physical risks can directly impact on infrastructure. Such risks and the long-term nature of these investments heighten interest in relevant metrics. Significant levels of investment in renewable energy likely explains the increased focus on avoided emissions. There remains scope for greater use and disclosure of climate metrics by infrastructure investors.

% using and/or disclosing climate metrics

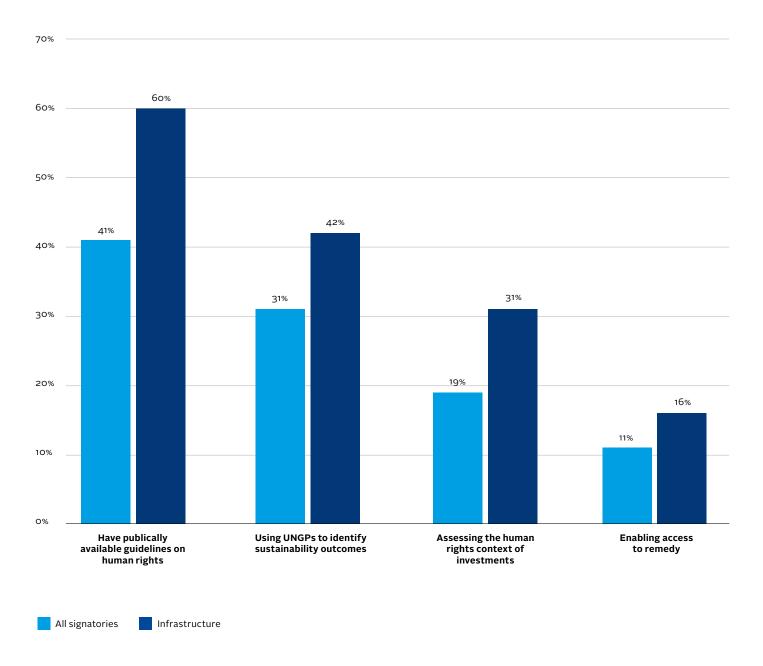


HUMAN RIGHTS GAIN GREATER FOCUS

Infrastructure investments have a tangible impact on and within communities and often require social impact assessments to obtain licences/permits, heightening awareness of human rights.

However, less than 50% of infrastructure investors reported fully aligning with the UNGPs, underlining the need for more systematic processes to identify, assess and mitigate human rights impacts, and enable access to remedy.

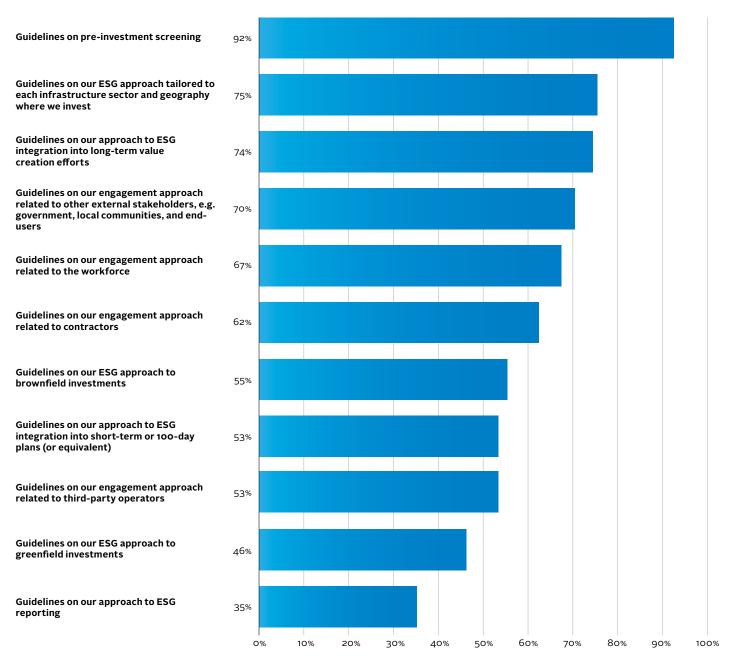
Activity on human rights



ASSET CLASS-SPECIFIC ESG GUIDELINES ARE COMMON

Infrastructure-specific ESG guidelines are common and reflect a strong commitment to responsible investment within the asset class. However, the data suggests more can be done to better align across the value chain (for example, with contractors and third-party operators). Regional disparities include a much higher percentage of greenfield investment guidelines in Europe than North American – likely reflecting a tighter regulatory environment for new projects in Europe.

What infrastructure-specific ESG guidelines are currently covered in your organisation's responsible investment policy(ies)?

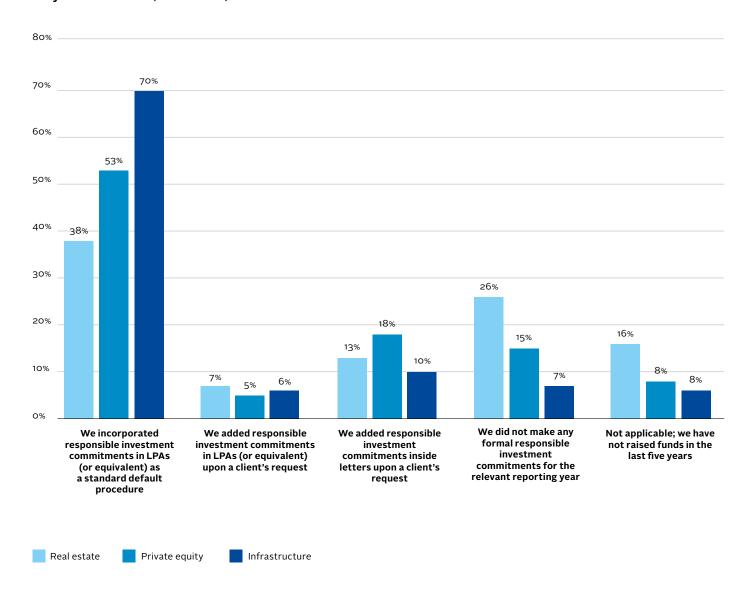


MOST INFRASTRUCTURE INVESTORS INCORPORATE RESPONSIBLE INVESTMENT POLICY COMMITMENTS INTO LPAS

Responsible investment policy commitments by infrastructure investors tend to be reflected in formal commitments in Limited Partnership Agreements (LPAs) or other constitutive fund documents.

This trend is in contrast with real estate and private equity investors, despite data showing many such investors also have comprehensive responsible investment policies.

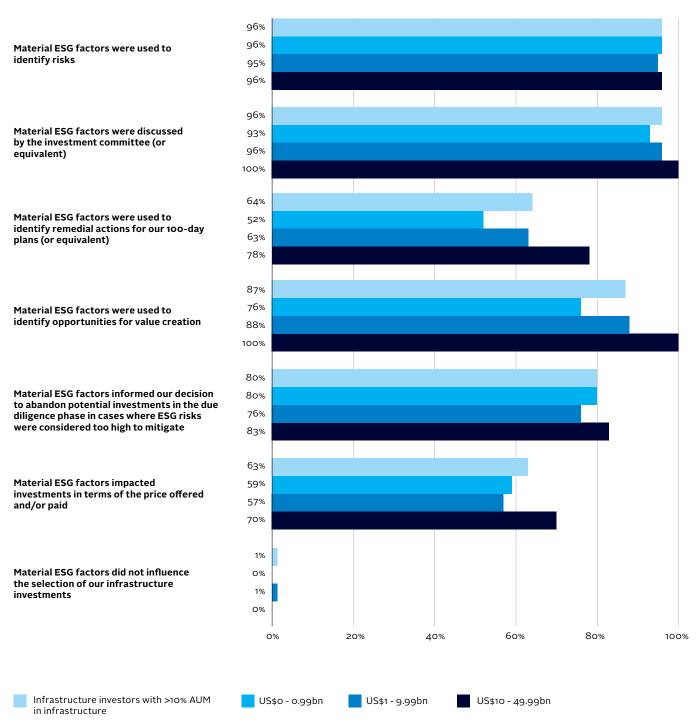
For all of the funds that you closed during the reporting year, what type of formal responsible investment commitments did you make in LPAs, side letters, or other constitutive fund documents?



MATERIAL ESG FACTORS CENTRAL TO INVESTMENT PROCESS

The data underscores the critical role that ESG factors play in infrastructure investors' strategic decision-making. The largest infrastructure investors score highest on this indicator, suggesting the importance of extra human and financial resources to more advanced practices.

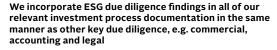
During the reporting year, how did material ESG factors influence the selection of your infrastructure investments?



ESG DUE DILIGENCE IS WELL INCORPORATED INTO THE INVESTMENT PROCESS

ESG due diligence in the asset class often involves site visits and technical consultants to build on desktop reviews. Findings are incorporated into investment decision-making, along with other key technical due diligence processes. Detailed stakeholder analysis and engagement is carried out less frequently. Such analysis and engagement can give investors additional insights into how their investments may impact on a range of relevant stakeholders, and into how they may build deeper relationships to better manage ESG risks and opportunities over the course of an investment.

Once material ESG factors have been identified, what processes do you use to conduct due diligence on these factors for potential infrastructure investments?



We conduct a high-level or desktop review against an ESG checklist for initial red flags

Our investment committee (or an equivalent decision making body) is ultimately responsible for ensuring all ESG due diligence is completed in the same manner as for other key due diligence, e.g. commercial, accounting and legal

We hire third-party consultants to do technical due diligence on specific material ESG factors

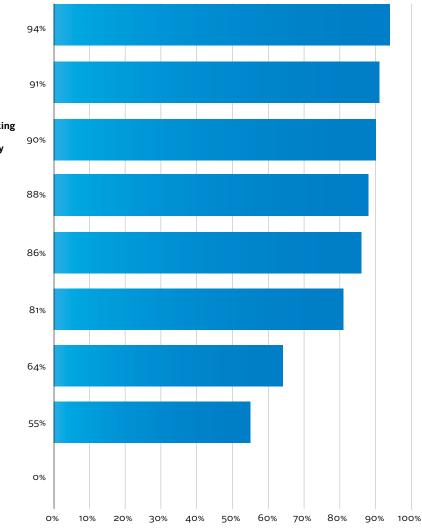
We conduct site visits

We conduct in-depth interviews with management and/or personnel

We send detailed ESG questionnaires to target assets

We conduct detailed external stakeholder analyses and/or engagement

We do not conduct due diligence on material ESG factors for potential infrastructure investments



ESG FACTORS KEY IN SELECTION OF THIRD-PARTY OPERATORS

To manage risks, investors and their third-party operators should be fully aligned on their ESG approach. The data suggests that infrastructure investors request documentation from third-party operators on their approach to ESG, but lack a deeper understanding of their track record and actual ESG management practices, particularly in relation to contractors and/or key stakeholders.

During the reporting year, how did you include material ESG factors in all of your selections of third-party operators?

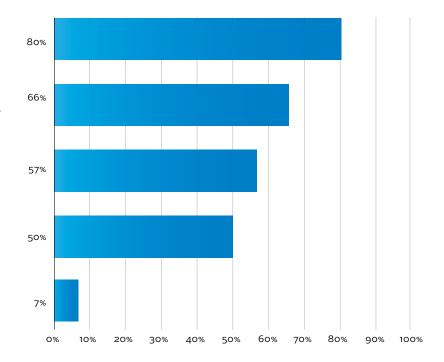
We requested information from potential third-party operators on their overall approach to material ESG factors

We requested documentation from potential third-party operators on their responsible procurement and/or contractor practices, including responsibilities, approach, and incentives

We requested track records and examples from potential third-party operators on how they manage material ESG factors

We requested information from potential third-party operators on their engagement process(es) with stakeholders

We did not include material ESG factors in our selection of third-party operators



MEETING ESG TARGETS: INVESTORS ADOPT VARIETY OF APPROACHES

Investors across geographies employ various means to ensure their infrastructure investments meet ESG-related targets. External verification and international best practice standards are less popular, possibly due to costs (for the former) and a perceived lack of consistency, recognition or value (particularly outside of emerging markets). Nonetheless, they can help generate transparency and greater confidence in an investor's ESG track record.

What processes do you have in place to support meeting your targets on material ESG factors for your infrastructure investments?

We use operational-level benchmarks to assess and analyse the performance of assets against sector performance

We implement international best practice standards such as the IFC Performance Standards to guide ongoing assessments and analyses

We implement certified environmental and social management systems across our portfolio

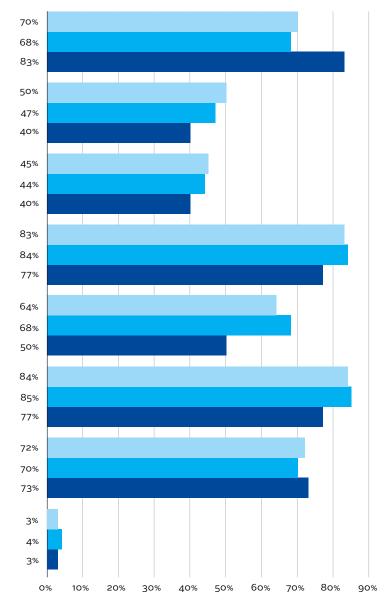
We make sufficient budget available to ensure that the systems and procedures needed are established

We hire external verification services to audit performance, systems, and procedures

We develop minimum health and safety standards

We conduct ongoing engagement with all key stakeholders, e.g. local communities, NGOs, governments, and end-users

We do not have processes in place to help meet our targets on material ESG factors for our infrastructure investments





Europe

North America

Source: Indicator INF 10. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure). Europe: 99. North America: 30.

INVESTORS ARE PROACTIVE IN ENSURING ESG COMPETENCIES AT THE ASSET LEVEL

Ensuring material ESG matters are discussed by the board of the asset/portfolio company at least yearly is the most common way in which investors ensure that employees at assets focus and build competence on ESG. A significant majority of investors also seek ways to share best practice across assets; this is an effective way of developing competence as it gives them the opportunity to engage directly and share ideas on leading practice.

How do you ensure that adequate ESG-related competence exists at the asset level?



We support the asset by finding external ESG expertise, e.g. consultants or auditors

We assign our board responsibility for ESG matters

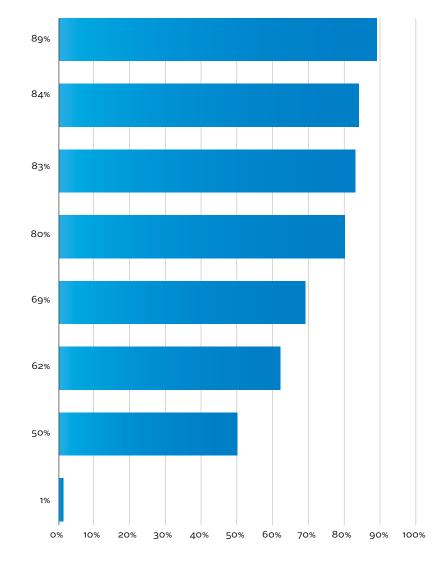
We share best practices across assets, e.g. educational sessions and the implementation of environmental and social management systems

We provide training on ESG aspects and management best practices relevant to the asset to employees (excl. C-suite executives).

We provide training on ESG aspects and management best practices relevant to the assets to C-suite executives only

We apply penalties or incentives to improve ESG performance in management remuneration schemes

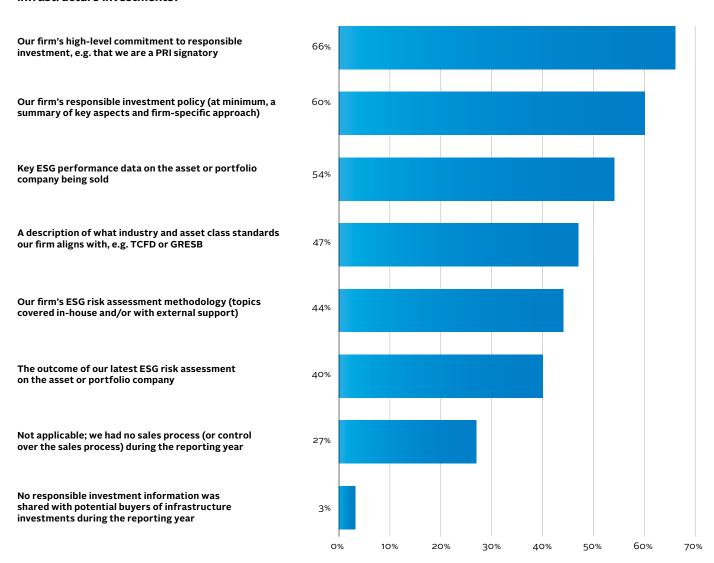
We do not ensure that adequate ESG-related competence exists at the asset level



SHARING HIGH LEVEL ESG INFORMATION WITH BUYERS IS MOST COMMON

Sharing responsible investment-related information with potential buyers of assets is common but appears to be quite high-level. However, anecdotal evidence from investors suggests that sharing more detailed ESG performance information can help support achieving better sale prices at exit – for example, being able to show how ESG performance has evolved over the course of an investment can demonstrate that the asset has been well managed and that there are unlikely to be significant, unexpected ESG risks post-transaction.

During the reporting year, what responsible investment information was shared with potential buyers of infrastructure investments?



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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org



The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org



United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

