Principles for Responsible Investment

RESPONSIBLE INVESTMENT TRENDS IN INFRASTRUCTURE

INSIGHTS FROM PRI REPORTING DATA

SEPTEMBER 2024

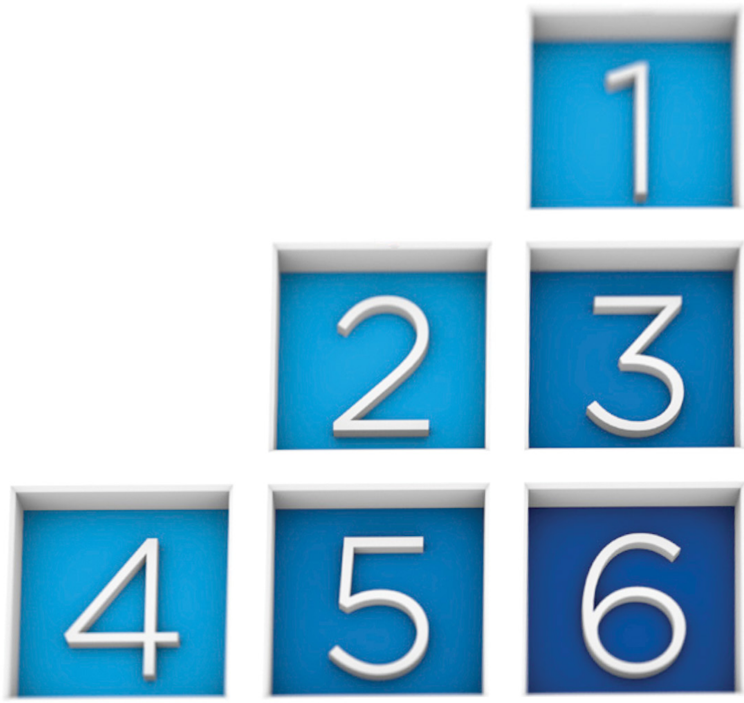
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

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:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. 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.

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.

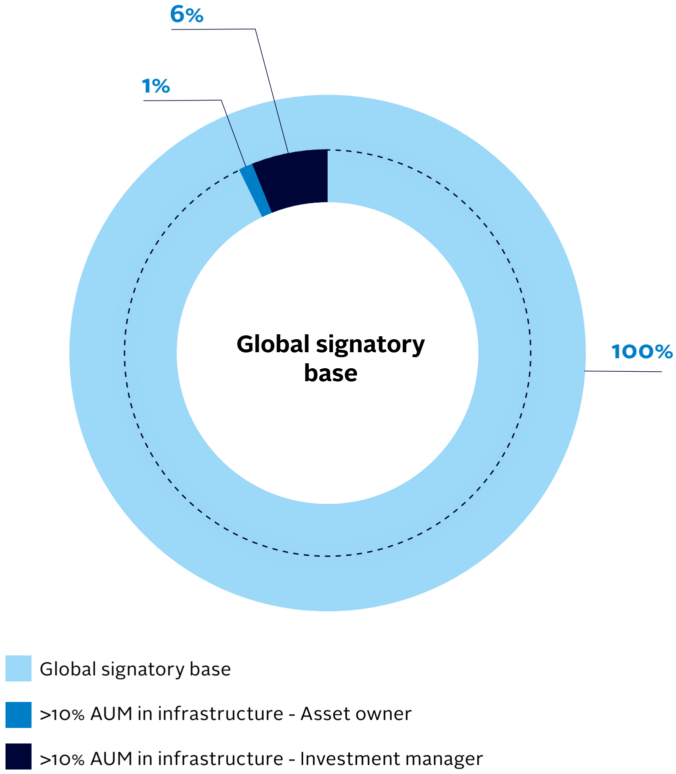
ABOUT THE DATA

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.

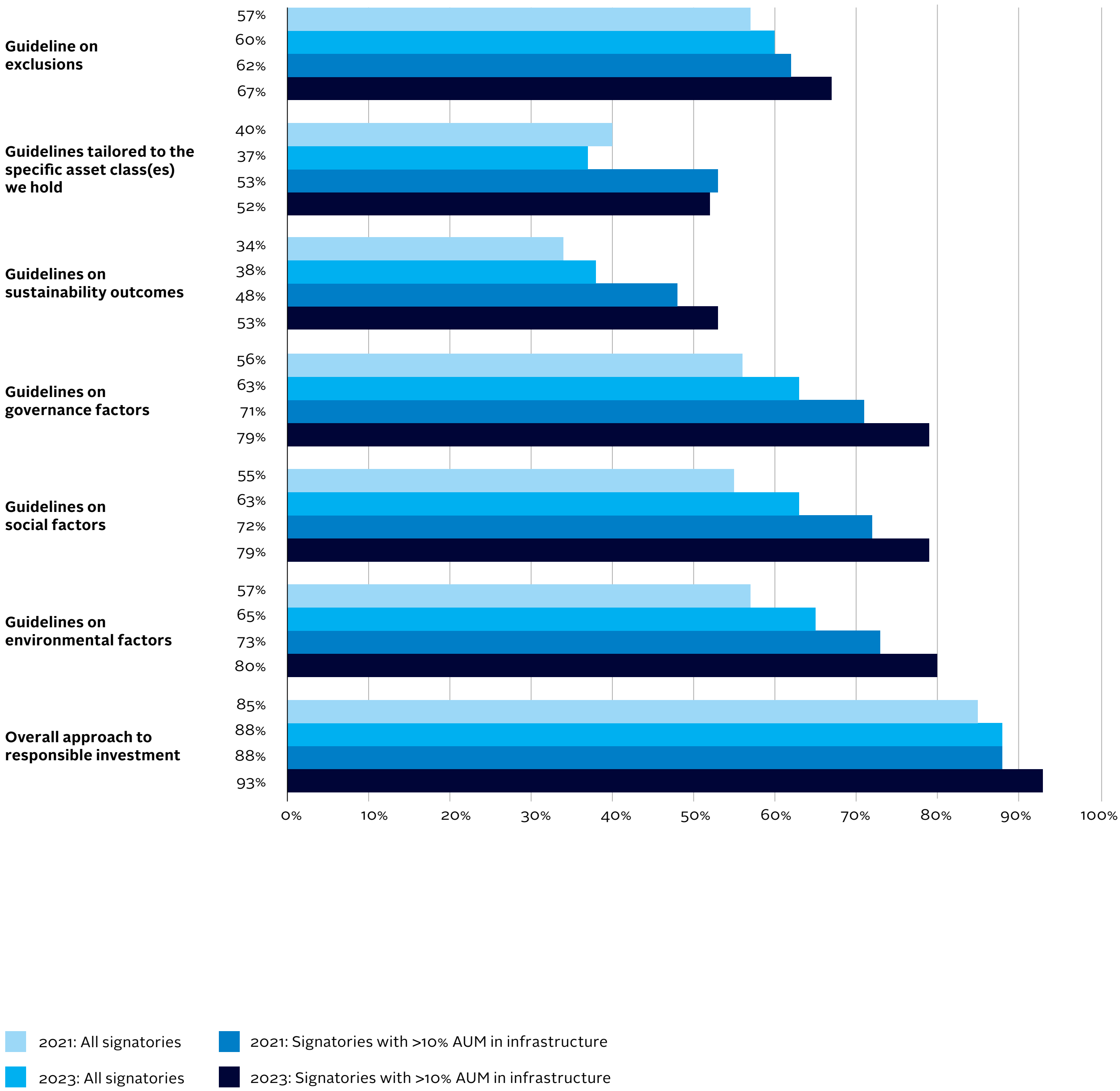


RESPONSIBLE INVESTMENT POLICY ELEMENTS MORE LIKELY TO BE PUBLIC

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?



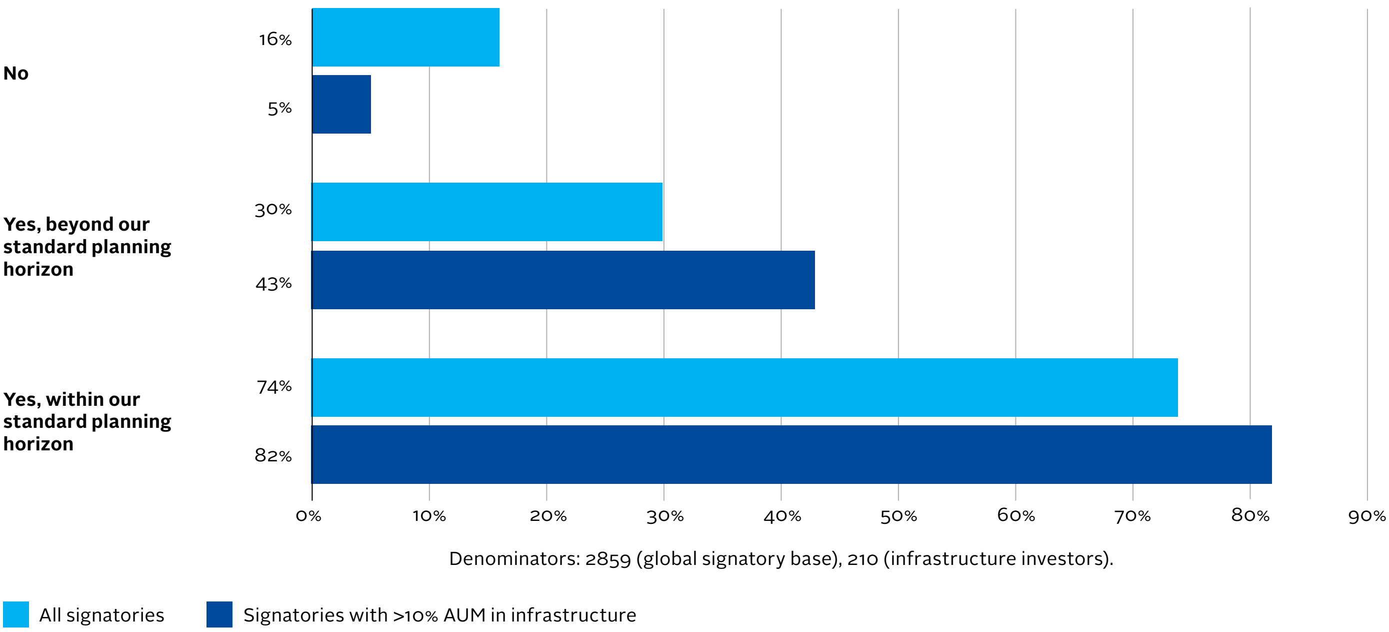
Source: Indicator PGS 3. Denominator for 2023: 2859 (global signatory base), 210 (infrastructure investors). Denominator for 2021, ISP 2: 2341 (global signatory base), 155 (infrastructure investors)

INVESTORS MORE ATTUNED TO CLIMATE RISKS AND SUSTAINABILITY OUTCOMES

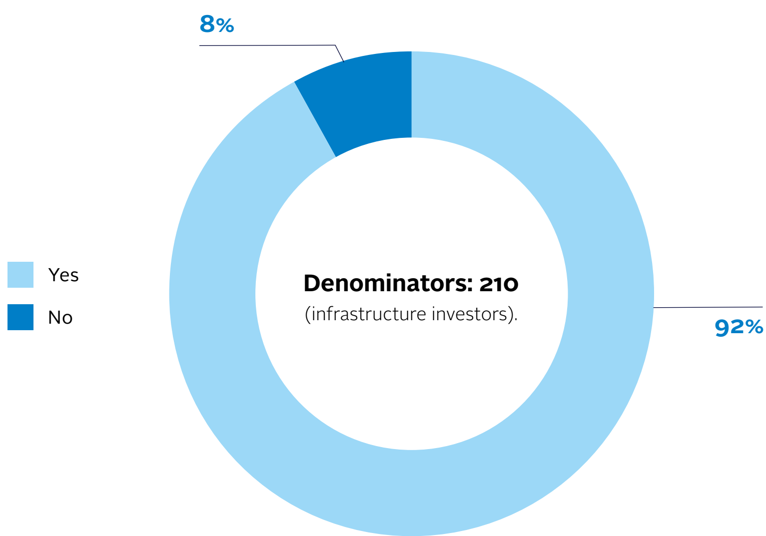
Investors in this asset class are more attuned to climate risks and sustainability outcomes than investors generally. This is likely because physical and transition risks have a significant impact on infrastructure investment, directly influencing asset values and operational resilience.

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)

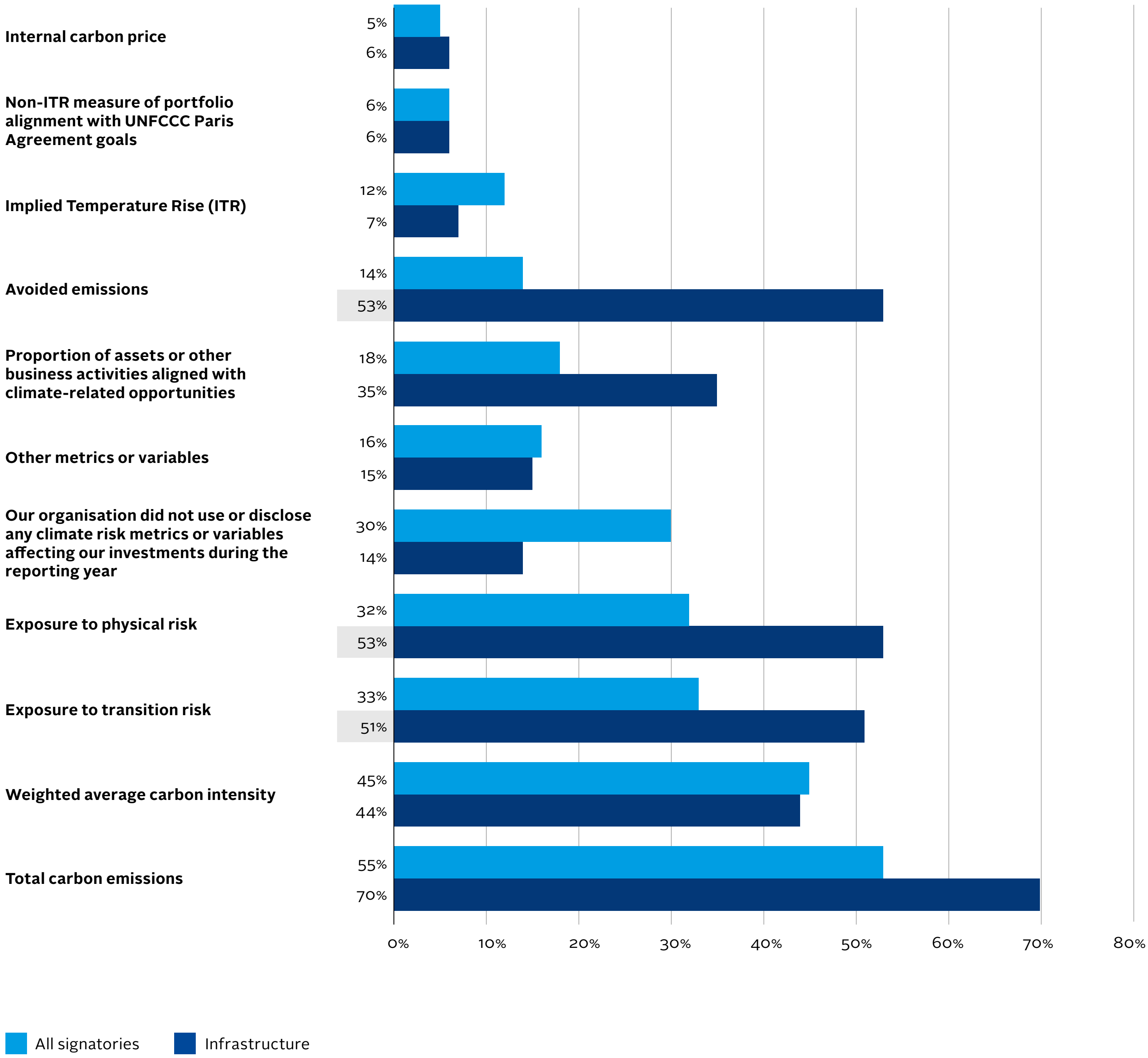


Source: Indicator PGS 41 (top) and PGS 47 (bottom).

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



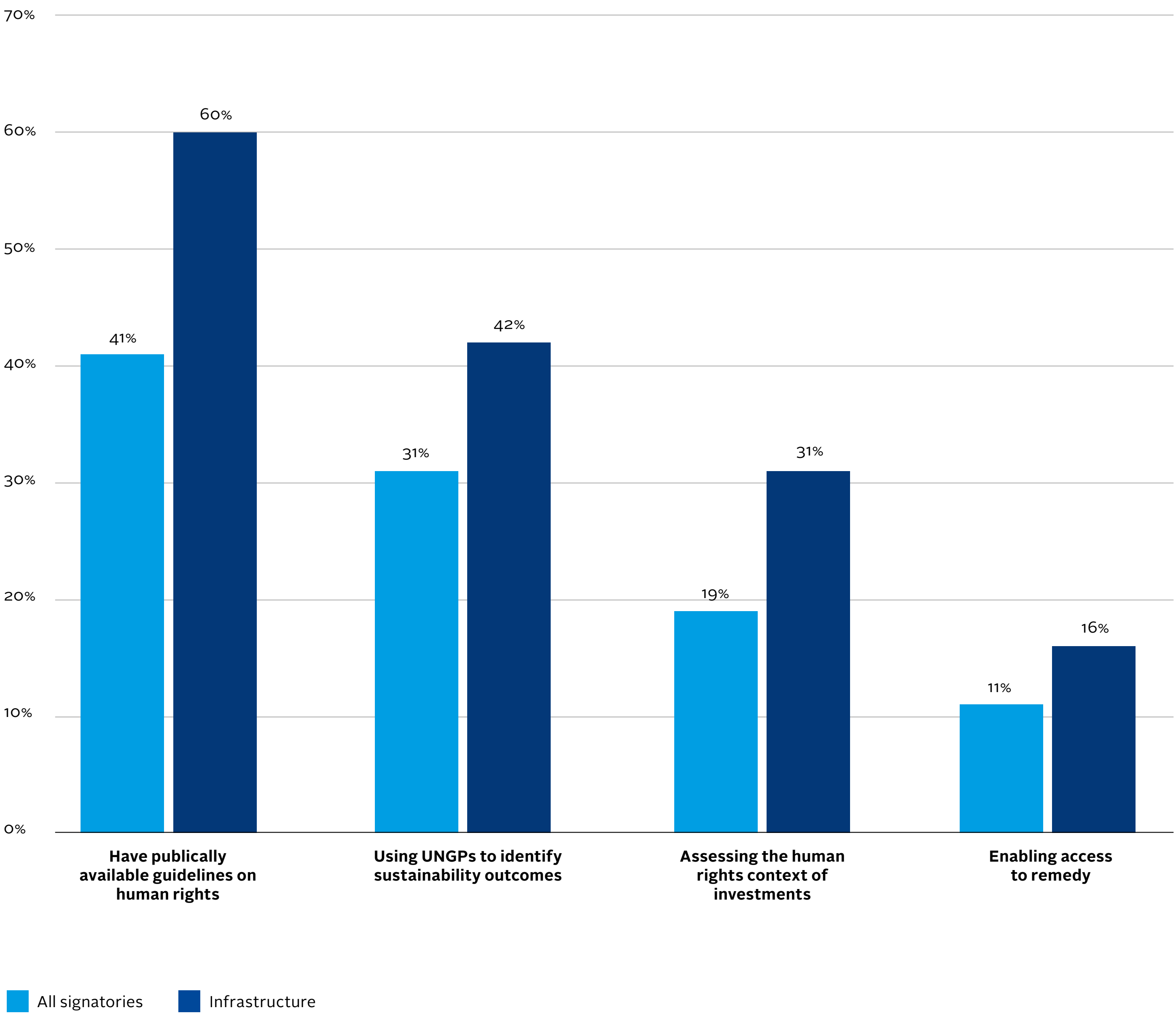
Source: Indicator PGS 45. Denominators: 2859 (global signatory base), 210 (infrastructure investors).

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

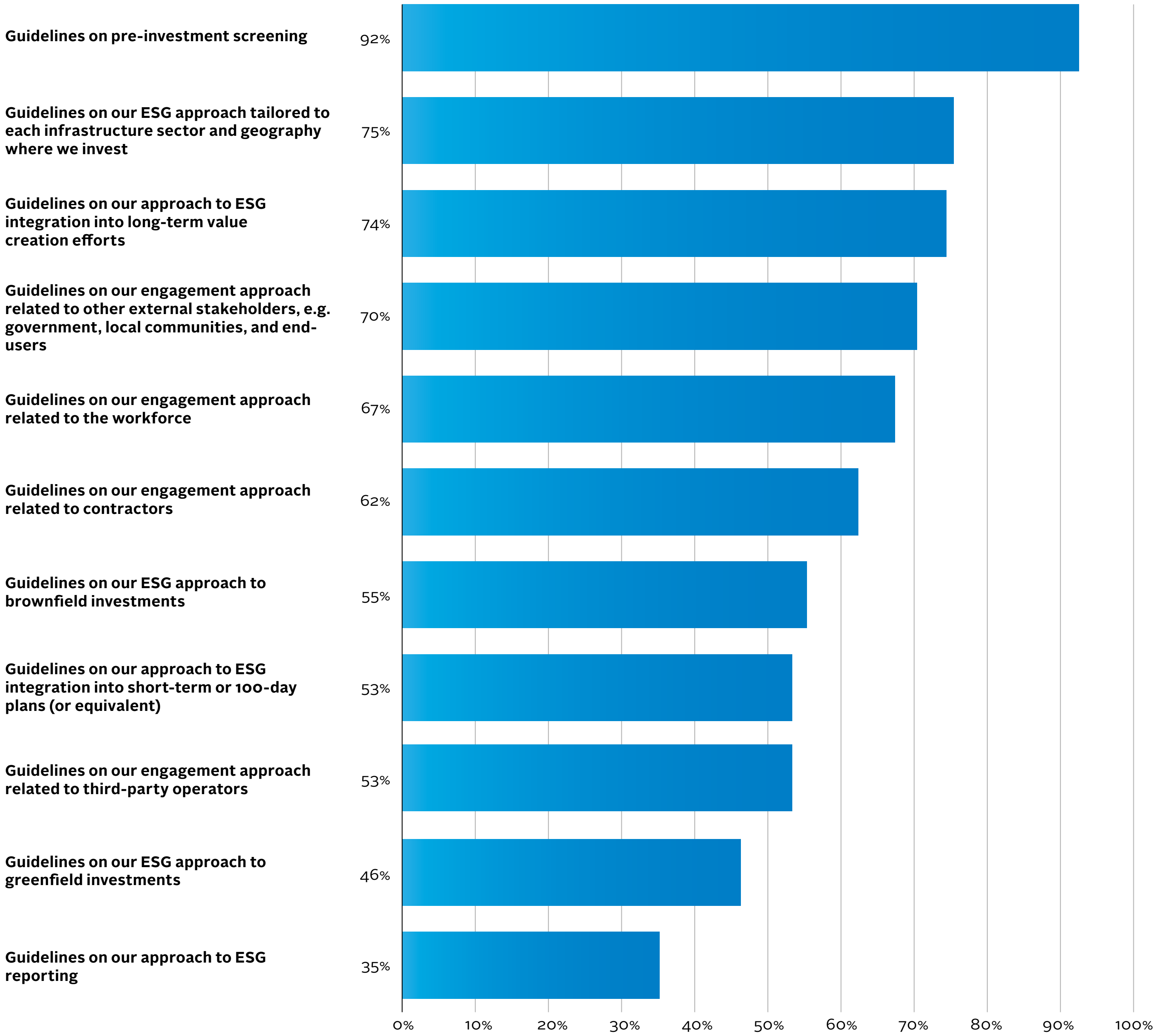


Source: The graph presents figures from multiple indicators: PGS 3, PGS 47.1, PGS 49, and PGS 50.
Denominators: 2859 (global signatory base), 210 (infrastructure investors).

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)?



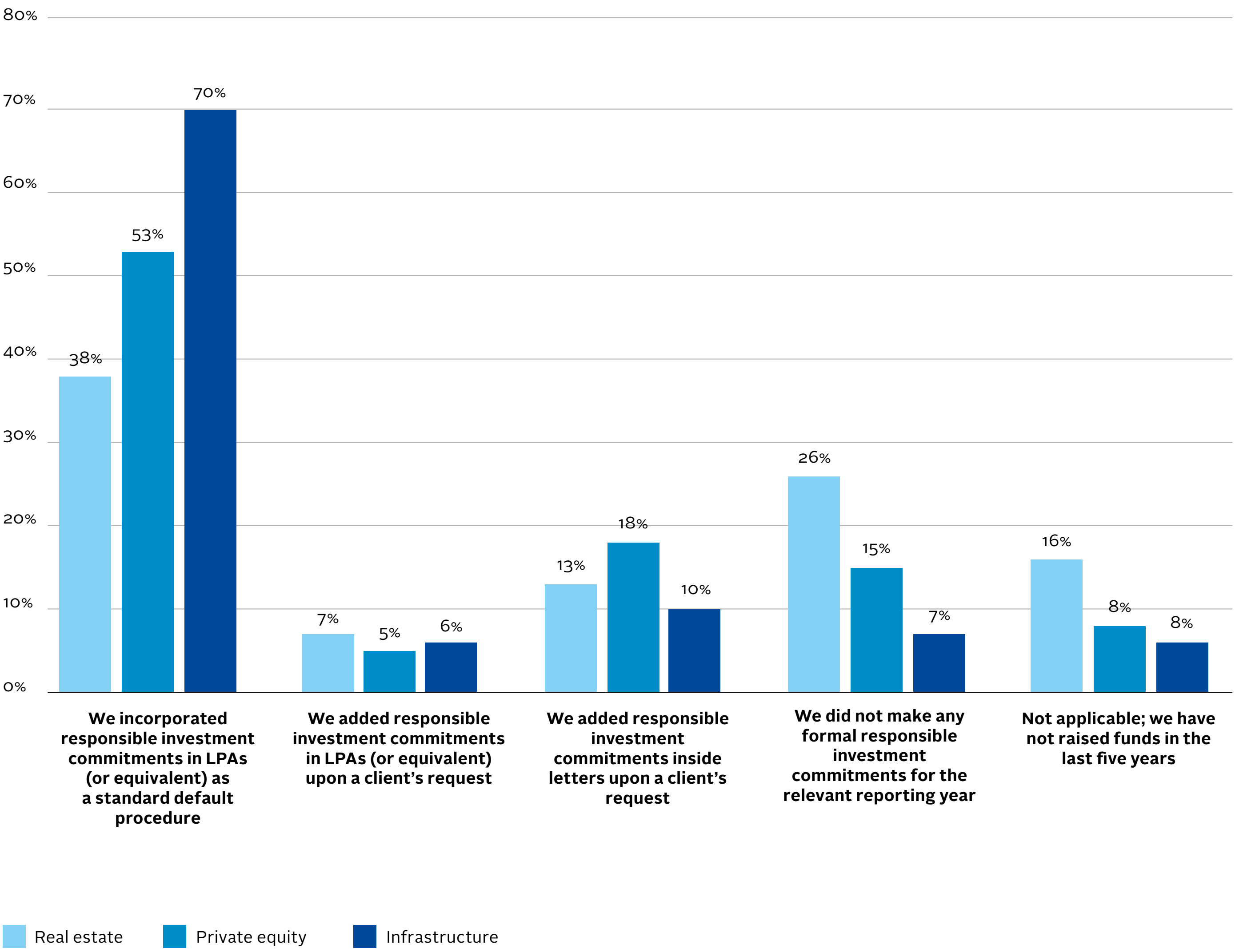
Source: Indicator INF 1. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure).

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?

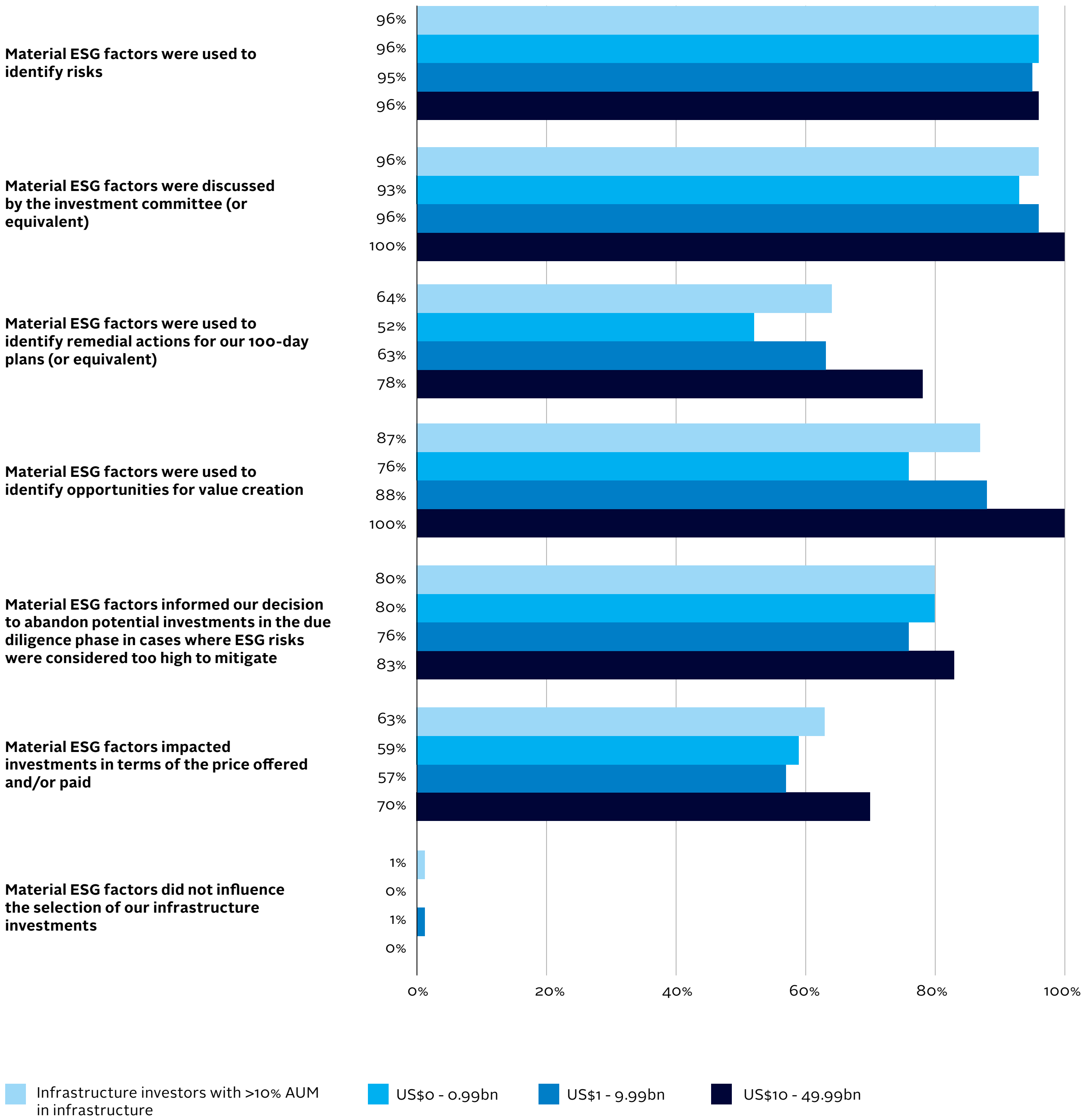


Source: Indicator RE 2, PE 2, INF 2. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure); 647 (private equity investors with >10% AUM in private equity); 244 (real estate investors with >10% AUM in real estate).

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?

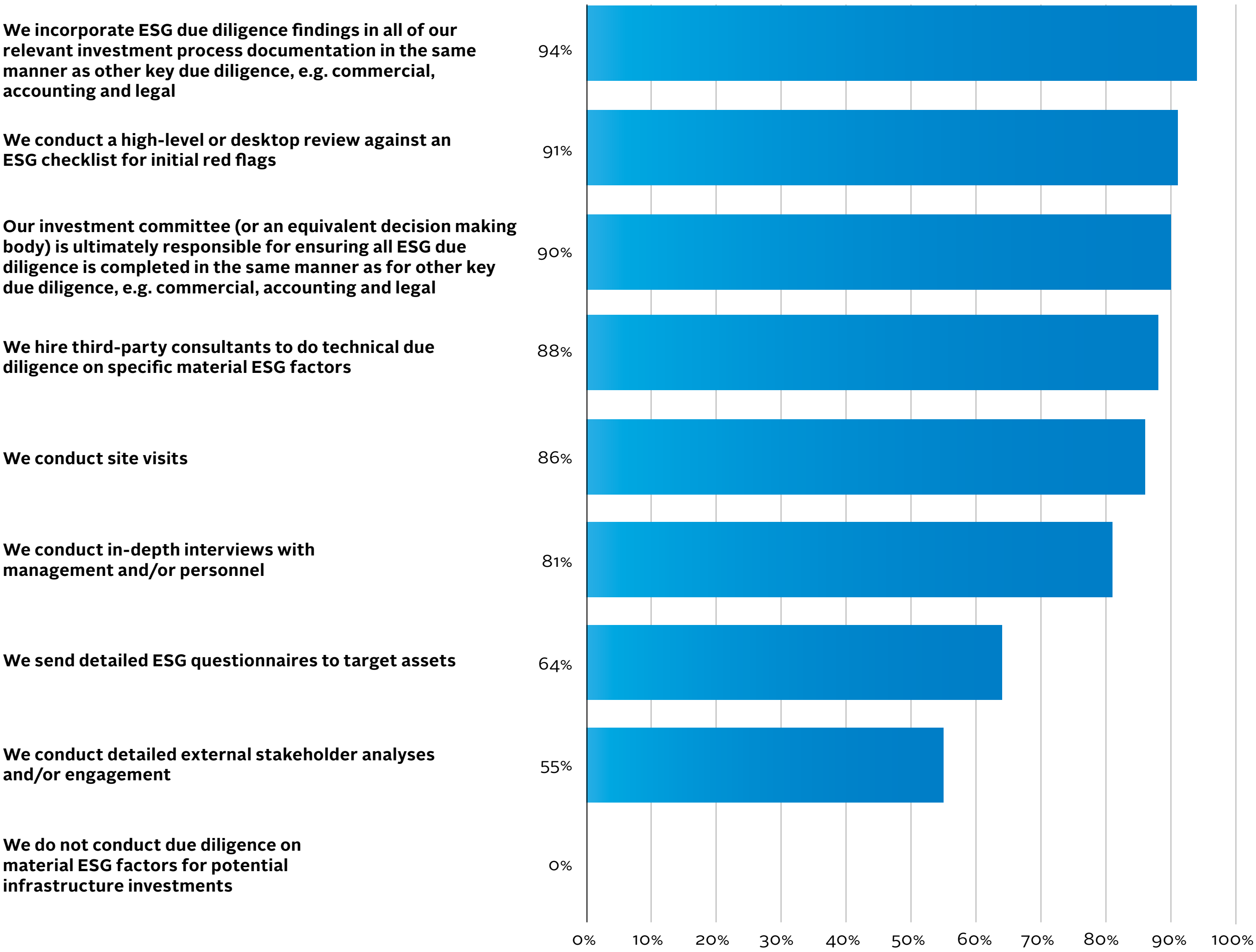


Source: Indicator INF 4. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure). The two largest AUM bands (US$49.99-250 and 250+) are excluded due to the sample size being too small to provide meaningful insights. Percentages reflect total AUM, not solely AUM in infrastructure.

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?

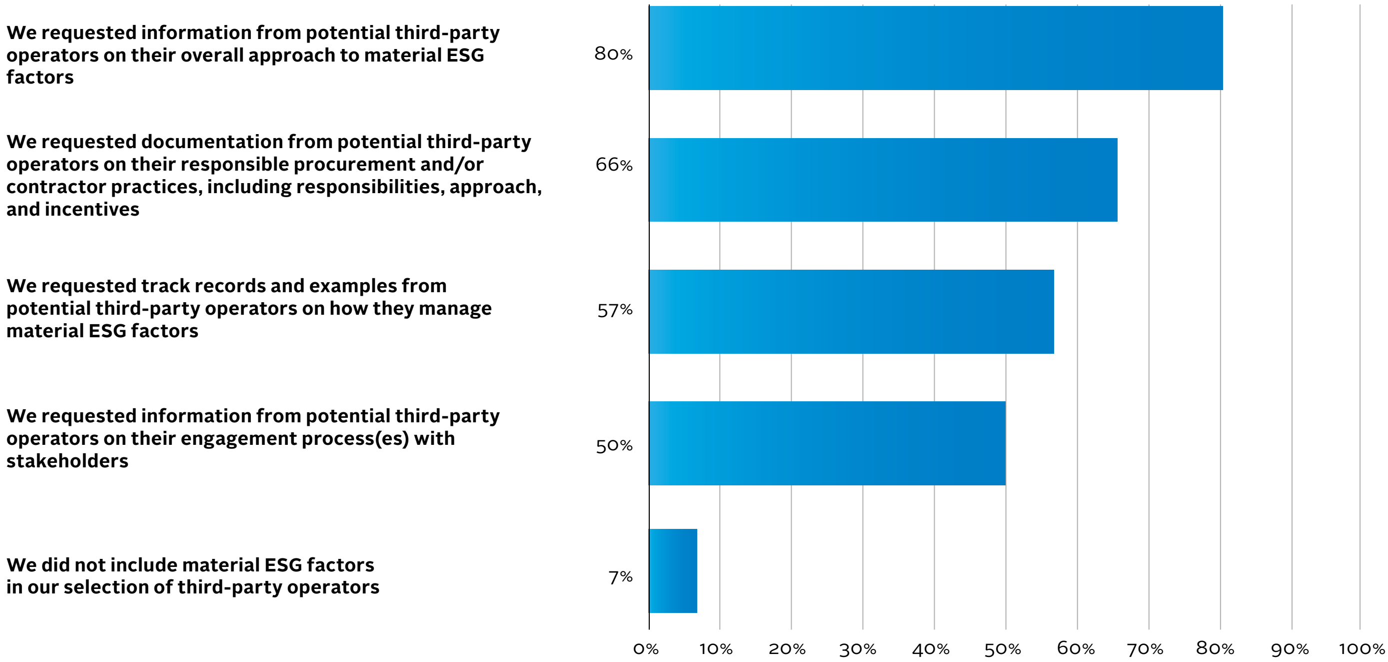


Source: Indicator INF 5. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure).

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?

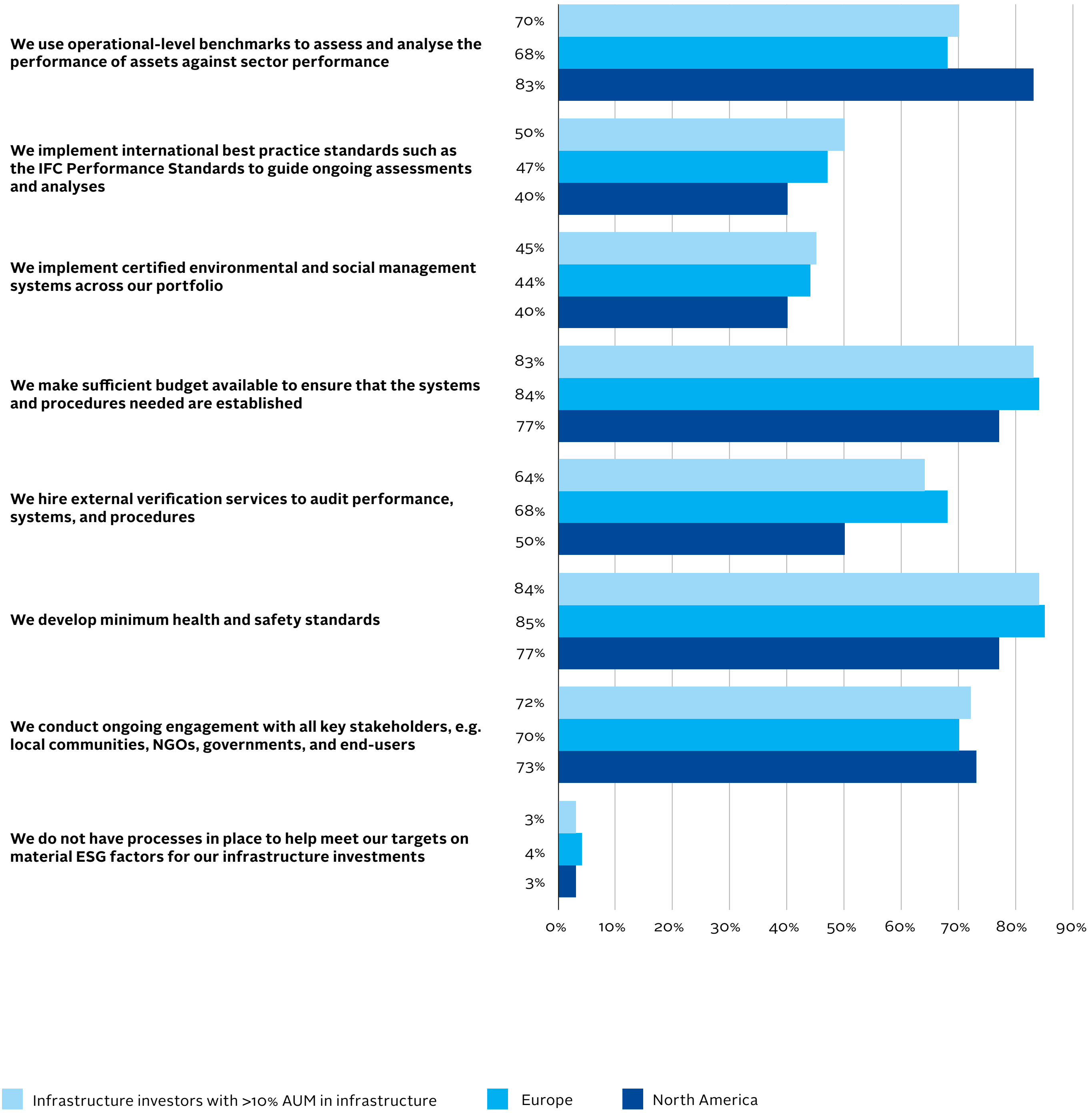


Source: Indicator INF 6. Percentages are based on the number of signatories who answered a particular question. The denominator for this indicator is 82 for all sub-questions.

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?

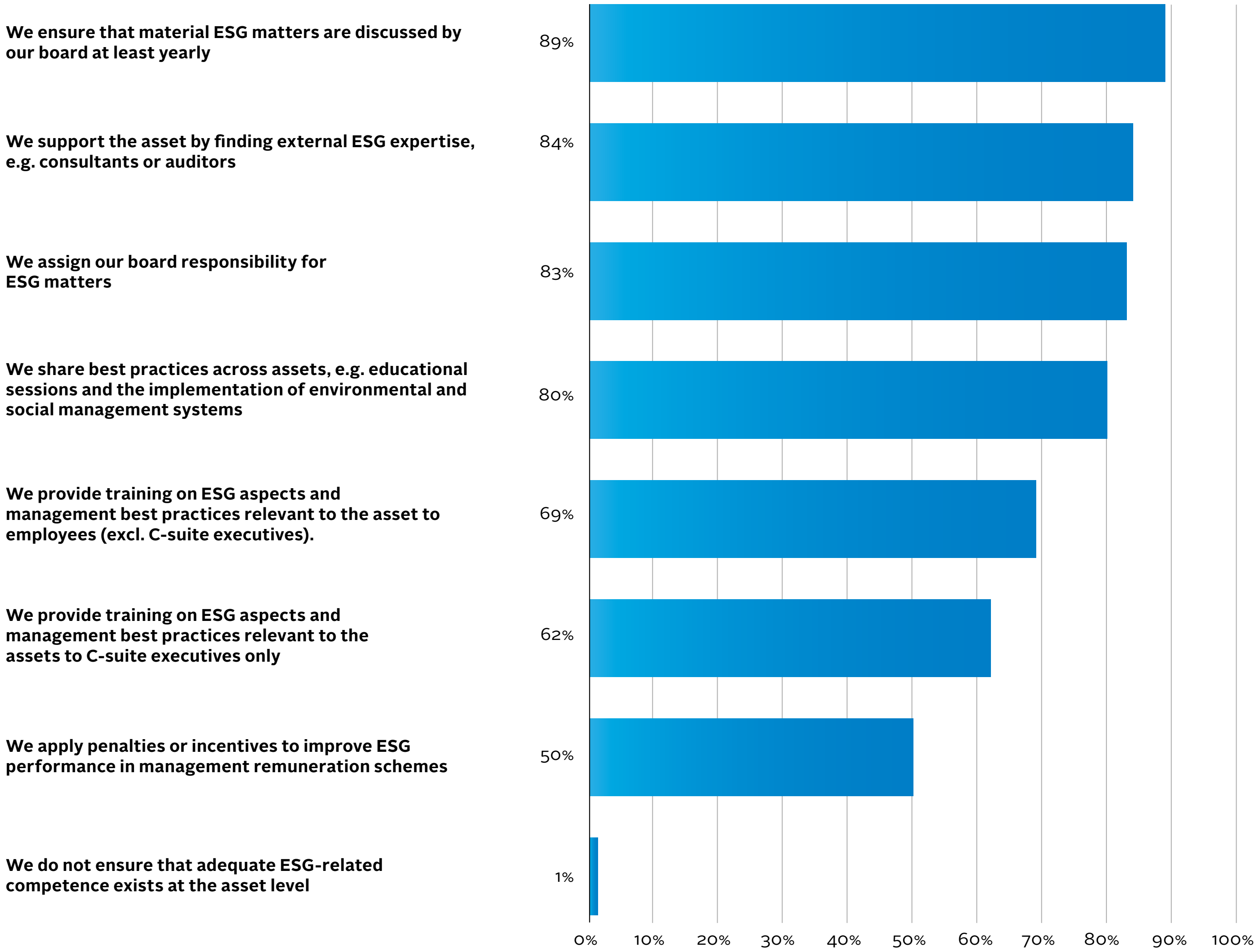


Source: Indicator INF 10. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure). Europe: 99. North America: 30.

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?

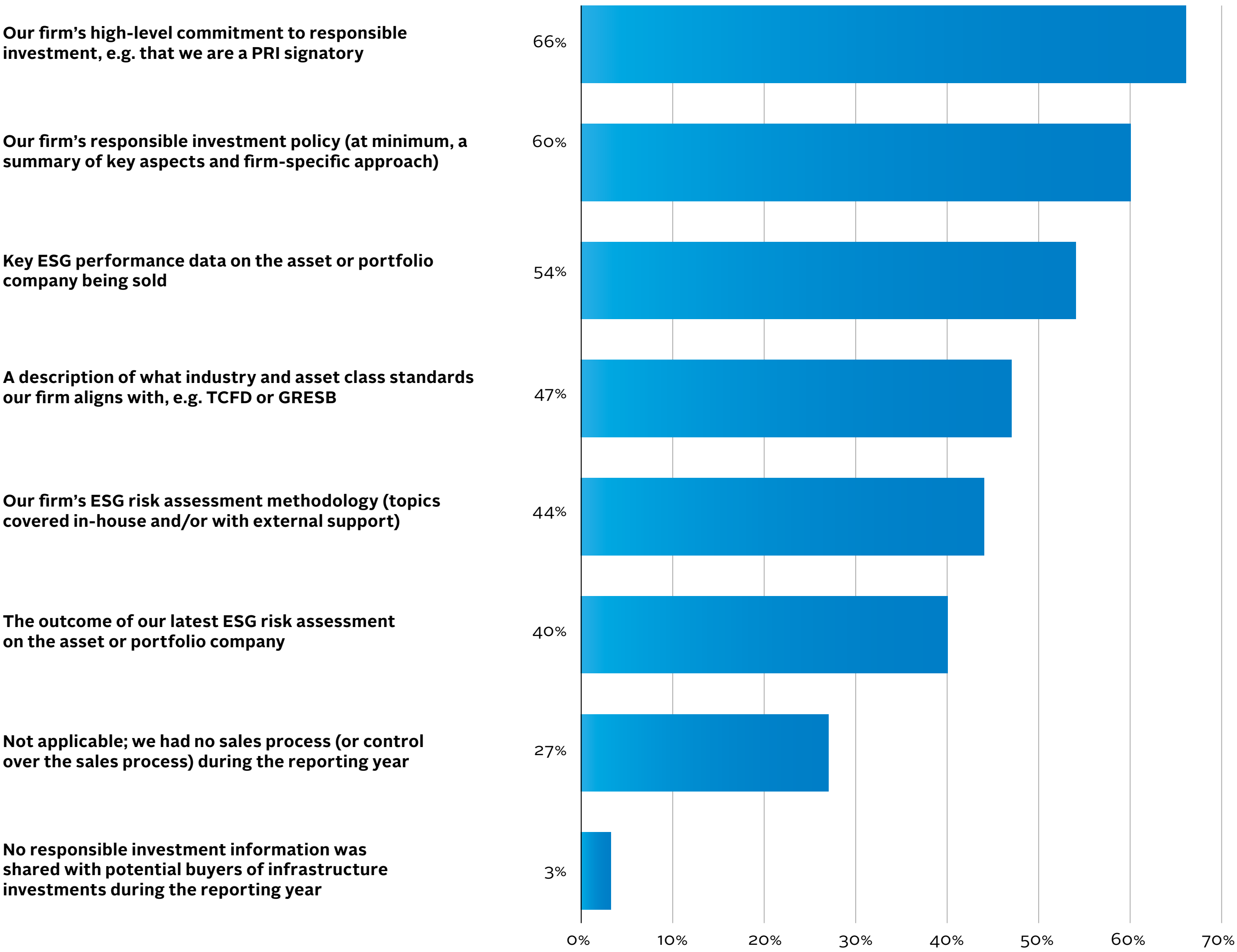


Source: Indicator INF 14. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure).

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?



Source: Indicator INF 16. Denominators: 159 (infrastructure investors with >10% AUM in infrastructure).

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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