

Sustainability Policy

Sequoia Infrastructure Debt Fund

31 January 2025



Our purpose

Our purpose is to generate attractive, reliable and sustainable income for our investors. Our investments provide financing for economic infrastructure in sectors such as transportation, utilities, power, and telecommunications, which play an important part in economic development and GDP growth. As such, our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits.

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This document sets out the Sustainability Policy of the Sequoia Infrastructure Debt Fund ("SIDF"), which Sequoia Investment Management Company ("SIMCo") adheres to in its role as Investment Adviser, as does FundRock Management Company (Guernsey) in its capacity as Alternative Investment Fund Manager ("AIFM").

The Policy sets out the Fund's sustainability strategy, our ESG risk management, and the ESG goals we have set and measure against. The Policy also establishes our methods for stakeholder and borrower engagement and how we aim to continuously improve and evolve ESG at SIDF.

Sustainability strategy and standards



Alignment with standards

Sustainable Finance Disclosure Regulation (“SFDR”)

SIDF reports as an Article 8 fund under SFDR, seeking to promote ESG characteristics, with a focus on environmental, but without sustainable investment as its objective. The relevant SFDR disclosures are available on the sustainability section of the AIFM's website: www.fundrock-lis.com/en/esg/.

Key focus area

Climate mission

The Fund considers E, S and G factors in its analysis of sustainability. However, SIDF's key focus area is on the environment and climate. SIDF invests in infrastructure, where environmental factors and impacts are particularly significant for this asset type. Infrastructure will also play a critical role in the world reaching net-zero carbon emissions by 2050. Whilst SIDF cannot commit to a net-zero portfolio by a specified date due to the unavailability of viable transition pathways for many of the sectors and sub-sectors in which we invest, we do support the climate goals of the Paris Agreement to limit the global average temperature increases to well below 2°C and to pursue efforts to limit the temperature increase to 1.5°C. These principles are core to the Fund's philosophy and view of how the world should look in the future. We aspire to invest where possible in assets that are conducive to and aligned with the world's transition to net zero by 2050. We will engage proactively with the companies we lend to and embed loan covenants where feasible to encourage them to work towards the goals of the Paris Agreement. Additionally, internally, the ESG score we calculate and assign to every credit is heavily predicated around the environmental impact of the asset's sub-sector. The ESG score is the main way we assess ESG in the investment process and factors into our capital allocation decisions; this is described in more detail further on in this Policy.

The methodology and approach we take is standardised across all assets to allow for comparability. However, within our assessment, SIMCo's credit and ESG teams are conscious to take a view on materiality where appropriate. This means that certain E, S or G factors may take priority as judged on a subsector or even asset level, which could be reflected in: certain components of the ESG score not being deemed relevant to the assessment (for example noise pollution not being material for an operational residential healthcare building); material factors may be the target of ESG-related covenants that get embedded into the loan documents; and/or material ESG issues for a credit shall feature in our action plan, which drives our ongoing engagement with borrowers (see the later section on borrower engagement).

Global Initiatives

UN Principles for Responsible Investment (“UN PRI”)

In May 2019, SIMCo became a signatory of the UN-backed PRI. These cover six high-level principles, which SIDF fully incorporates in its investment processes and decisions.

UN Global Compact (“UNGC”)

Whilst not a paid participant, SIDF operates its business and its investment activities in accordance with the UNGC.

ESG risk management and integration into the investment process

ESG principles

SIDF has three ESG principles that are applied to the portfolio:

1. Negative screening
2. Thematic investing (positive screening)
3. ESG scoring

SIMCo has a full ESG Framework, which detail the comprehensive approach taken to negative screening and thematic investing as well as a complete breakdown of the ESG scoring methodology, evidence requirements, and calculation.

1. Negative screening

The following sub-sectors or asset types are excluded:

- > Upstream infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities, and facilities involved in tar sands.

Note that midstream assets (such as pipelines) and downstream assets (such as refineries) as well as power generation from oil and gas are not necessarily excluded but, as with all assets, are subject to SIMCo's ESG scoring and monitoring processes.
- > Thermal coal mining and directly related infrastructure, for example a dedicated thermal coal transportation asset like a railroad or wagons.
- > Power generation from coal and any asset using thermal coal, but not coking coal.
- > Permanent military infrastructure for active operational forces or for military production.

The exclusion criteria apply to the primary nature and objective of the business. Incidental revenue streams associated with an asset will be considered such that any ancillary revenues arising from excluded activities should not constitute a material part of that business (i.e. more than 5% of its total revenues).

Additionally, SIDF's investment criteria limits investment to only certain types of infrastructure. This means many harmful or controversial asset types are already excluded de facto, for example:

- > Alcohol production
- > Gambling operations
- > Tobacco production
- > Pornography and adult entertainment
- > Controversial and conventional weapons

2. Thematic investing (positive screening)

SIDF has three ESG investment themes:

- > **Renewable energy**, such as solar, wind and geothermal generation and directly related businesses including companies that supply renewable energy.
- > **Enabling the transition to a lower carbon world**, such as grid stabilisation, electric vehicles, traffic congestion reduction, and the substitution of coal by gas.
- > **Infrastructure with social benefits**, which provides for basic human needs (such as clean water and food security) or brings a positive change by addressing social challenges and inequalities (such as healthcare, education and affordable housing) or advancing society as a whole (such as progressing telecommunications).

Positive screening will be employed to increase the fund's exposure to these investment themes, subject to existing concentration limits.

3. ESG scoring

An ESG scoring framework is used to help SIDF to allocate capital between projects and to measure its progress over time in a quantitative way.

SIMCo's proprietary ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the direction of travel. For example, a business that currently contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution over time.

The score is largely predicated around the environmental impacts of the sub-sector in which the asset falls ("E score"). Moreover, the Fund's policy is not to lend to companies with a very low E score of less than one, regardless of the overall ESG score.

The score can then be positively or negatively modified based on its environmental, social and governance credentials. The methodology blends the "E", "S" and "G" components without allowing strength in one area to offset entirely weakness in another. For example, a polluting company will always get a poor score, even if it has excellent social and governance policies.

The scoring model has been calibrated such that renewable energy projects with the most robust social and governance practices, for instance, could receive a score of 100, and a power plant that burns thermal coal with no redeeming social or governance policies would receive a score of 0.

The ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower's credit rating (for example, weak corporate governance has a negative contribution to credit quality), but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile and vice versa.

ESG scores must be taken into account in the investment process. *Ceteris paribus*, when evaluating potential investments, SIDF will prioritise transactions with higher ESG scores, and when considering the potential disposal of investments, SIDF will prioritise transactions with lower ESG scores. The aim of the Policy is to improve the ESG score of our loan book over time; albeit there may naturally be fluctuations in the portfolio ESG score over time rather than a monotonically increasing ESG score. This will be achieved by investing in higher-scoring opportunities, disposing of lower-scoring opportunities, and engaging with existing portfolio companies to bolster their ESG credentials where feasible.

ESG risk management and integration into the investment process

continued

Integration of ESG principles into the investment process

ESG evaluation and risk assessment is present at every stage of the investment process, starting pre investment with potential pipeline opportunities all the way through to exit deliberations and decisions:

1. Origination
2. Initial screening
3. Detailed credit analysis
4. Investment approval process
5. Acquisition and monitoring
6. Repay and redeploy

1. Origination

Positive screening is also employed to take a more favourable view on companies that fall within one of our three ESG themes.

2. Initial screening

Negative screening is applied to each potential new investment, precluding the Fund from investing in certain harmful, risky or controversial sectors.

3. Detailed credit analysis

The SIMCo team gather and analyse due diligence materials, such as environmental assessments, technical reports, and internal policies. Any material or emerging ESG risks will be identified for review at the Investment Committee meeting and for subsequent monitoring. Further information or a pre-investment ESG questionnaire may be requested in order to more fully understand the company's ESG risks and opportunities.

The asset is assigned an unmodified E score and then a preliminary ESG score is calculated according to SIMCo's scoring methodology. This gets assessed in the context of the Fund's overall portfolio and investment objectives and is presented in the final credit memorandum, alongside a commentary describing the scoring rationale and any notable ESG risks.

4. Investment approval process

The Investment Committee ("IC") of SIMCo approves or modifies the ESG score and discusses any material ESG risks or opportunities for the asset.

Where appropriate and possible depending on the type of deal, ESG-related covenants may be embedded into loan documentation.

5. Acquisition and monitoring

Each investment is formally monitored at least semi-annually. As part of the monitoring, the IC reviews the investment's ESG score and any emerging risks or changes that may have occurred. The IC formally reconfirms or updates the scoring based on its review.

All borrowers are also sent an annual ESG questionnaire and engaged with over the course of the year on key ESG risks, opportunities and topics.

6. Repay and redeploy

The ESG profiles of investments are considered when discussing portfolio restructuring and disposals. Companies with a low or deteriorating ESG score may be looked at for disposal, whilst decisions are made taking account of financial metrics.

Good governance at borrowers

The Fund firmly believes that the quality of a borrower's governance influences the risk of lending to it and the likelihood of full and successful repayment. We assess for good governance at the companies we lend to.

Assessing the effects of climate change

As part of its investment analysis, SIDF will, where relevant and possible, assess the consequences of different climate change scenarios for its investments. However, climate scenario analysis relies on extensive and consistent datasets across the portfolio, which the Investment Adviser looks to obtain from the borrowers or from third-party providers where primary data is unavailable.

Risk oversight

The day-to-day responsibility for and application of ESG in practice as per this Policy has been delegated to the Investment Adviser, SIMCo, along with other portfolio management services. SIMCo's Chief Risk Officer has ultimate oversight of credit risks.

Further information about the Investment Adviser can be found on their website: www.seqimco.com.

Our ESG targets and goals

It is important to have a clear set of goals against which to track and monitor progress in our ESG journey. We believe the goals we set out in this Policy are clear, objective and measurable. The Fund, through its ESG goals, aims to improve the ESG performance of its assets, recognising also the importance of transition assets and borrowers who themselves have a transition strategy.

SIDF's three ESG goals are as follows:

1. Comply with negative screening criteria.

The aim is for 100% of projects to remain compliant with the negative screening criteria described on page 2 of this Policy.

2. Progress thematic investing (positive screening).

This is measured in terms of percentage of the portfolio invested in renewable energy, enabling the transition to a lower carbon world, and infrastructure with social benefits, subject to SIDF's existing concentration limits.

3. Over time, increase portfolio weighted average ESG score.

Note, this is subject to requirements to maintain diversification across subsectors, meaning the average ESG score can only increase so far. Note too there may be natural fluctuations in the portfolio score over time rather than a monotonically increasing ESG score.



Stakeholder engagement

The Fund maintains an open and transparent dialogue with its key stakeholders – Shareholders, borrowers, suppliers, lenders and society – and reports periodically on its engagement activities. We aim to ensure continual improvement based on stakeholder input and evolving standards.

Borrower engagement

SIDF deploys a range of engagement strategies designed to encourage and promote sustainable behaviour in the companies that it lends to. On occasion and where viable, some of our engagements may be collaborative with other stakeholders or lenders on the deal.

Loan terms

Where appropriate and possible, loan terms can include covenants or repeated representations to ensure that the borrower complies with its stated ESG objectives and to encourage it to improve its standards over time. These could include, for example, obligations to: meet predefined targets; disclose data or enhanced reporting, such as completing our annual ESG questionnaire; or adopt, continue or enhance environmental, social or governance policies.

SIDF can also consider adopting financial terms in a loan where, for example, the interest rate might fluctuate depending upon the borrower's performance on set KPIs or metrics such as carbon emissions.

The focus area of the covenant may be highly bespoke to the specific deal, such as laying out a predetermined business transition plan or contemplated with a view to a material risk present at that credit.

As a debt provider, loan terms are a powerful lever to drive positive impact and behaviour at our borrowing companies with tangible, real-world outcomes. While the limitations of this strategy should be recognised as we are generally unable to insert bespoke provisions into loans to public names, bonds, and highly syndicated deals especially when we are not a senior lender for example.

Sustainability questionnaire

Borrowers will also be asked to complete a detailed annual post-investment sustainability questionnaire. This includes questions on the borrower's overall ESG policies, procedures, progress and oversight, as well as requests into specific areas of E (e.g. description of the carbon-reduction initiatives), S (e.g. the complaints process) and G (e.g. the internal audit function). There are a range of quantifiable ESG metrics also covered, such as CO₂ emissions, health and safety records, and Board independence.

Ongoing monitoring and direct engagement

ESG performance and credentials will be monitored regularly for each investment in the semi-annual monitoring process. The Investment Adviser will seek to maintain a direct dialogue with the management teams of the borrowers, or the sponsor where applicable, to discuss sustainability risks and performance.

SIMCo devises ESG action plans for every asset. These plans identify areas of improvement in the borrower's ESG credentials and/or additional evidence that would be required to be able to fully assess certain indicators within the ESG scoring framework. These lists of actionable areas are then used to form the basis of the engagement with the borrower over the course of the year.

Escalation strategy

If a borrower's ESG score or performance significantly deteriorates, SIMCo will contact the management of the borrower to determine a strategy to improve performance. If the borrower is unwilling or unable to do this, the Fund may look to dispose of the loan.

Voting

Although lenders do not, as a matter of course, have voting rights in the companies that they lend to, from time to time they are required to consent to loan modifications, such as waivers of specific loan provisions. In such situations, SIDF's policy is not to consent if the overall net effect of the requested modification would be negative for the ESG profile of the investment.

Continuous improvement

This Policy is considered a “live document”, with updates as required. The Sustainability Policy is formally reviewed, with a view to improving outcomes, in its entirety at least annually.

SIMCo provide internal, firm-wide ESG training to all employees at least annually. Training can include topics such as sustainability best practices, updates to internal ESG processes, and changes in the broader ESG landscape, for instance key regulatory developments.

Appendix I: Changes in this Policy since the 2024 version

This year, the Policy has been revamped to follow the outline of common reporting frameworks, namely the ISSB and TCFD structure of: governance, strategy, risk management, and then targets or goals. Some parts of the previous version of the Policy have simply been reorganised (e.g. “ESG risk management and integration into the investment process”). Whereas certain content has been added, for instance to elevate the document as a comprehensive policy (e.g. “Continuous improvement”). Few parts of the prior Policy have been refreshed; this specifically relates to the “Climate pledge”, which now features as our “Climate mission” under our “Key focus area”, as we look to hone our focus and report progress in a more measurable and precise way going forward.

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