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Core infrastructure – Responsible investment in practice

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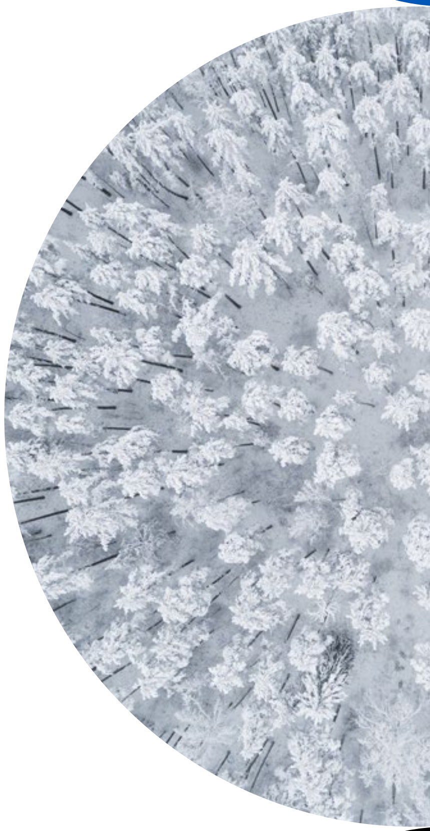
Contents



Section 1

Sustainable and responsible investment policy and approach

Our commitment to responsible investing and strong governance

Our core infrastructure funds are managed in accordance with the Core Infrastructure team's ESG Principles which are focused on promoting positive ESG outcomes in relation to the management of the funds and their investments. Funds promote the consideration of ESG characteristics, both ESG risks and opportunities which are material to direct infrastructure investment: In particular, we promote the safe and sustainable operation of assets that provide essential services to the public; climate change mitigation and adaptation; and measuring social value (social and employee matters, respect for human rights, anti-corruption, and anti-bribery concerns).

We engage with the leadership of each of our portfolio companies to establish strong governance structures and to ensure they are managing ESG risks and opportunities. We challenge and encourage leadership teams to set appropriate targets, to put in place robust and transparent management processes, and to meet best practices in all their operations. The Core Infrastructure team's process also evaluates the governance of our supply-chain and the associated labour and diversity rights, and the governance of our development projects and partners.

We believe that ESG factors are financially important and directly affect investment performance. Indeed, investments that have integrated ESG factors tend to outperform those that have not. Understanding ESG risks and opportunities, alongside other financial metrics, helps us make better investment decisions for our clients. Informed, constructive engagement helps improve working practices and ensures strategic alignment. This leads to initiatives that can enhance the value of our clients' investments.

Based on abrdn's strong ESG foundations, the Core Infrastructure team has defined its own ESG philosophy that is tailor-made for our investment mandate and is in line with the long-term needs of our clients. The resources of the wider firm are available whenever required.

Our core beliefs

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Understanding ESG risks and opportunities, alongside other financial metrics, helps us to make better investment decisions for our clients.

Informed, constructive engagement helps to improve practices that enhance the value of our clients' investments.

Our ESG principles

The Core Infrastructure team assesses ESG factors and integrates them into every stage of our investment process. The aim is to generate the best long-term outcomes for our clients.

Enhance clients' risk-adjusted returns by proactively identifying and addressing material ESG risk factors when screening investment opportunities. We then undertake investment due diligence and manage the assets during the ownership period.

Identify and capture opportunities to deliver positive outcomes and solutions for society, without causing detriment to our clients' investments. We also frequently enhance investment performance.

Agree specific long-term targets to set strategic direction and work with portfolio companies' management teams.

Reporting on our ESG activities

Our ESG-related activities are illustrated in the quarterly and annual reports. We give examples of where we have improved ESG risk management, report any opportunities we could develop and any actions we have planned. The Core Infrastructure team also makes annual submissions to leading external peer-group comparators, such as the Global Real Estate Sustainability Benchmark (GRESB), to demonstrate ESG leadership and improving ESG performance. We follow positive market developments and join new industry ESG initiatives, as appropriate.

Integrating sustainability risks and opportunities with broader monitoring and engagement activities may affect the value of investments and returns. For each investment, we consider how funds can mitigate any identified ESG risks. We also consider any opportunities to enhance ESG strategies that might improve investment performance. We seek to avoid investments that carry sustainability risks, which could have a material impact on fund valuation unless they can be mitigated effectively. As such, we believe that integrating ESG considerations, both risks and opportunities, can have a long-term positive effect on performance. However, integrating ESG considerations may also cause funds to reject investments that might have a positive impact on value.

Section 2

Core infrastructure's approach to embedding ESG

We have two individuals embedded in the Core Infrastructure team who are responsible for managing and integrating ESG issues through the investment value chain (from origination to asset management). They also have the support of abrdn's Head of ESG, Real Assets.

In addition to the extensive internal resources, technical and commercial advisers are also hired during the investment process to support the assessment of ESG topics. During the ownership period, external sources of expertise are hired for specific requests, if needed, such as for climate scenario analysis.

Sustainability factors are integrated within our whole investment process and throughout the investment value chain. We align our process with the six Principles for Responsible Investment (PRI) in that the Core Infrastructure team:

- Incorporates ESG issues into investment analysis and decision-making processes
- Is an active owner and incorporates ESG issues into our ownership policies and practices
- Seeks appropriate disclosure on ESG issues by the entities in which we invest
- Promotes acceptance and implementation of PRI within the investment industry
- Works to enhance our effectiveness in implementing PRI
- Reports on our activities and progress towards implementing PRI

Our Core Infrastructure investment activities will be conducted in alignment with the following, to the extent applicable:

- UN Global Compact's 10 Principles
- International Finance Corporation (IFC) Performance Standards or similar best practice standards
- OECD Guidelines for Multinational Enterprises
- Adherence to the principle of 'do no significant harm' to the following objectives:
  - Protection of water resources
  - Transition to a circular economy
  - Pollution prevention and control
  - Healthy ecosystems
  - Fundamental International Labour Organisation conventions (as above)

In addition, abrdn's Core Infrastructure team supports, coordinates and contributes to a network of global ESG leadership efforts. The team is

- An active participant of GRESB
- A signatory of the Principles for Responsible Investment (PRI)
- A member of the working group for the Institutional Investor Group on Climate Change (IIGCC) to establish a Net Zero Investment Framework for infrastructure as an asset class

Section 3

Assessing, monitoring and reporting ESG factors

We believe that comprehensively assessing environmental, social and governance (ESG) factors, combined with constructive engagement, leads to better client outcomes. More specifically, ESG is a fundamental part of the way in which we think about infrastructure investments. It forms an integral part to all stages of our investment process and it is analysed alongside all other material issues.

The following two paragraphs are only applicable to funds classified as Sustainable Finance Disclosure Regulation (SFDR) Article 8. Funds are managed in accordance with the Core Infrastructure team's investment and asset management process, which is focused on achieving a high standard of ESG outcomes. At the initial investment screening stage, assets are classified into four categories depending on their ESG characteristics.

1. Assets with negative ESG characteristics and limited scope for change
2. Assets with some ESG challenges but with scope for material positive change
3. Assets with moderate ESG characteristics and with scope for material improvement
4. Assets with strong existing ESG and climate credentials

01	02	03	04
Negative ESG story, carbon intense with no-to-limited scope for change	**ESG challenges, including carbon intensity but essential services and scope for material positive change**	**Moderate ESG characteristics with scope for material improvement**	**Strong existing ESG and climate credentials**
• Challenging ESG credentials (including possible health and safety risks) • Assets with no role in the low-carbon transition and no-to-limited scope for repositioning • No potential for EU Taxonomy alignment • No-to-limited scope for improvement	• Assets in challenging sectors but which provide essential services for which there is no short term low-carbon alternative and where there is scope for positive change over the medium term • Some potential for EU Taxonomy alignment during asset life or ownership period	• Assets with a role in enabling the low-carbon transition and that may have further opportunities for improvement through active management (credible transition plan) • Potential for EU Taxonomy alignment during ownership period	• Assets inherently aligned with the low-carbon transition • EU Taxonomy alignment
• Fossil-fuel-based energy generation, extraction or production • Unsustainable biomass • Locked-in fossil fuel exposure	• Ports • Liquefied natural gas terminals • Gas pipelines, transmission and distribution • Bulk liquid storage facilities • Airports	• District heating • Electricity transmission and distribution • Fibre and towers • Rolling stock (hybrid) • Energy from waste	• Renewable energy generation • Electricity storage • Carbon capture and storage-related infrastructure • Rolling stock (electric, battery, hydrogen)

EU Taxonomy alignment →

The key metrics underlying the classification into the four categories are in line with guidance issued in the EU Taxonomy. The Fund aims to make a contribution towards the climate change adaptation and/or climate change mitigation objectives and those investments are assessed against the EU Taxonomy criteria. Once assessed, if the Funds' investments are EU Taxonomy aligned they are considered to be making a substantial contribution to one or both of the above-mentioned objectives without causing any significant harm to other environmental objectives.

The Fund invests in, but is not limited to, renewable energy capacities such as photovoltaic and wind as well as high efficiency micro combined heat and power facilities and smart metering equipment or systems, which under the EU Taxonomy are considered to be either low carbon activities or enabling activities. The Fund may also invest in infrastructure transport and digital assets that contribute to climate change mitigation and/or climate change adaptation.

The Fund will assess Do No Significant Harm for each investment as required by the EU Taxonomy criteria. Similarly, an assessment will be made for each investment against the EU Taxonomy minimum safeguards.

The EU Taxonomy assessment is done in relation to climate change mitigation and climate change adaptation objectives in force at the time of the due diligence phase of an acquisition and pre Binding Offer and might expand over time to include other environmental objectives (depending on the Fund's objectives and as more EU Taxonomy criteria become available).

Where data and methodology exist, then the extent of EU Taxonomy alignment will be reported in a future update of this DDQ.

The investment process also assesses any potential ESG issues, risks and strategic ESG goals that would be targeted during ownership.

Integrating ESG into decision-making

Investment approach

The following section reflects the investment approach for funds classified as SFDR Article 8. Other funds incorporate a more high-level assessment of ESG risks and opportunities as part of their investment process.

Stage 1 – investment screening

At the earliest possible stage, the Core Infrastructure investment team carries out an ESG assessment to identify ESG 'deal breakers' and any material risks. Part of this process includes deciding to which pre-defined ESG category the investment belongs (see table). ESG risks and suitability are assessed with the ESG Screening Tool, which includes the following categories:

- EU Taxonomy alignment
- Non-aligned revenue with repositioning potential (during ownership period and asset life)
- Greenhouse gas emissions (carbon exposure)
- Carbon reduction potential
- Energy consumption intensity
- Physical climate risk
- Transitional climate risk
- Risk of air, water or ground pollution and hazardous waste
- Potential for social benefits
- Corruption and labour conditions
- Health and safety

Through assessing these key ESG metrics, assets are classified into one of the four ESG categories described above and key ESG risks are identified. Given the limited amount of information available at Stage 1, the assessment is mostly qualitative, although each metric will be updated and quantified as more information becomes available throughout the investment process. If the prospective investment is taken on to Stage 2, the ESG risks identified will be further assessed at the due diligence stage. This early approach allows us to prioritise and integrate ESG factors at the fund level, and acts as a reference point for all investment decisions. If any material failings are identified, the opportunity will be declined. It also helps to guide engagement on ESG-specific factors at the asset level.

Stage 2 – due diligence

At this stage, we define the ESG scope, engage consultants and attend site visits. We also have a prescriptive list of transaction-specific ESG risks and opportunities. These are reflected in our ESG due diligence questionnaire and assessed with the support of technical and commercial advisors in the due diligence phase. ESG performance, risks and opportunities are analysed, and the impact on cash-flow modelling and value are assessed. The Core Infrastructure team will also look to analyse and assess regulatory data and compliance, as well as physical and transitional climate-risk exposure.

Stage 3 – approval

Prior to presenting our findings to the investment committee, the investment team ensures there is an explicit strategy in place to address all material ESG risks. This process involves identifying potential ESG issues and highlighting these to the committee, alongside any mitigating factors. At this stage, we will also consult the infrastructure team's senior advisory panel, which acts as a sounding board for specific issues and concerns. The ESG due diligence questionnaire forms the basis for ESG integration and a value-creation plan, which is implemented during the ownership period.

Stage 4 – asset management

This is the stage where we define and execute the ESG-integration, value-creation and transition plan. The core parts of this stage in the process include, but are not limited to, designing a plan to address ESG due diligence concerns. We also put in place specific representations and warranties according to the risk profile of the transaction and we set strategic ESG goals with management.

Integrating ESG into decision-making

Active ownership approach for asset management

During the ownership phase, the team members responsible for ESG work with the investment team to promote effective ESG practices. We believe this is key to creating meaningful change and driving performance. Throughout the holding period, the investment team maintains a constant dialogue with the portfolio company's management team. This allows us to monitor and encourage the evolution of its ESG practices. We have at least one seat on the supervisory board of all of our portfolio companies. As such, we have a powerful means to promote ESG considerations and to disseminate best practices. The investment team ensures the board manages key ESG risks and opportunities through standardised reporting.

A comprehensive ESG framework, based on agreed targets, leads to an action plan for each investment. This ensures that each portfolio company remains on track towards adding value and promoting sustainability. The four key pillars of our active ownership approach are summarised below.

1. **Strong governance to ensure accountability**

   At the early stage of the ownership process, funds will review governance, the management structure and remuneration to ensure alignment. Additionally, we will assign clear ESG responsibilities to the board following robust governance processes. We will also set ESG targets with management.

2. **Identify and monitor risks and opportunities**

   Throughout the ownership period, the asset management team will collect relevant data on ESG performance, based on agreed targets, and to monitor key ESG risks and opportunities. This provides information on mitigating actions addressing key ESG risks and progress towards the ESG value-creation plans and also facilitates the annual GRESB submission.

3. **Raise ESG awareness and share learnings**

   We encourage a culture of transparency and disclosure of ESG performance. This includes pro-actively engaging with consumers and employees to raise awareness. We also promote innovation and accountability at all levels through training and sharing knowledge.

4. **Establish strong ESG and impact reporting**

   An important part of our ownership approach involves ensuring that the board manages key ESG risks and opportunities through standardised reporting. We also assess ESG monitoring practices, adherence to policies, and develop gap analysis. Key conclusions are fed into budgeting, valuation and investor reporting.

Section 4

Reporting

We engage with our clients on ESG issues in the following ways.

- **Quarterly client reporting**: abrdn is committed to maintaining transparency on ESG reporting and comments on any ESG issues/concerns in our quarterly investor reports.
- **Annual general meeting**: We review each of our investments with our investors at the annual general meeting for the funds. We highlight ESG actions we have taken and any issues that have arisen for each asset.
- **Advisory board**: We have an advisory board for the funds that is made up of representative investors. We report any ESG issues or concerns to the board, as and when they arise.
- **Investor publications**: Our parent company produces research and reports related to ESG issues. We are also active participants in conferences and forums related to ESG issues.

Funds classified as SFDR Article 8 report the percentage share of activities aligned with the EU Taxonomy on an annual basis as detailed above. During the investment and ownership phase, factors deemed to indicate the presence of a principal adverse social or environmental impact (PAI indicators) are assessed, monitored and included in periodic reporting. Adverse impacts are further actively mitigated or prevented through engaging with investee companies and continuous oversight through abrdn's presence on the supervisory board of all portfolio companies. Further, the effectiveness of measures and processes put in place to avoid or mitigate adverse social and environmental impacts are tracked and reported over the ownership period. In addition, funds will participate in the GRESB process.

Section 5

Data sources and screening criteria

1. **Due diligence check-list prior to acquisition**

   An ESG Screening Tool and due diligence questionnaire have been developed by the Core Infrastructure team. They are used for ESG due diligence checking and for presenting investment decisions to the investment committee. Our Screening Tool and due diligence questionnaire are regularly reviewed and updated to ensure that they include or exclude particular features as they become market practice or a regulatory requirement. We have embedded a sustainability risk analysis and checklist into this due diligence approach in order to ensure that ESG risks are mitigated wherever an acquisition proceeds. This also allows us to identify cost-effective environmental improvements to future-proof the value of assets and ensures the associated costs are integrated into asset budgets. Each acquisition is carefully screened to understand any material sustainability risks and how they should be managed or reduced during ownership. A review will assess the initial ESG issues and make a comparison with the fund's target.

2. **Asset management plan**

   The Core Infrastructure team is responsible for developing and maintaining the asset management plan, which draws on input from a range of sources. ESG is at the heart of these asset management plans. Small updates towards these plans are provided at least bi-weekly. Semi-annual portfolio review committees provide a forum for in-depth debate and discussion on each asset, including progress towards ESG goals.

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