B CAPITAL

B Capital Partners AG

Sustainability Policy

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Sustainability Policy

1. Overview Investment Process

At B Capital, the investment process is a team effort. A structured due diligence process systematically precedes the presentation of a formal investment recommendation from the investment advisor (the "**Investment Advisor**" or "**B Capital**") to the AIFM for every investment opportunity. The due diligence process incorporates a number of formal occasions for the B Capital's investment team (the **Investment Team**) to present and discuss the investment opportunity both with and without the AIFM. This approach facilitates an early heads up and involvement of the AIFM, and ensures that the due diligence draws on the knowledge and analytical experience of all parties involved.

Sustainability or ESG (Environmental, Social, Governance) considerations are an integral part of B Capital's investment process. This document presents B Capital's conceptual approach to, and integration of, sustainability into its investment process.

B Capital structures the investment process into five steps (see Fig. 1.1 below), with each step requiring fulfilment of the following activities as a minimum:

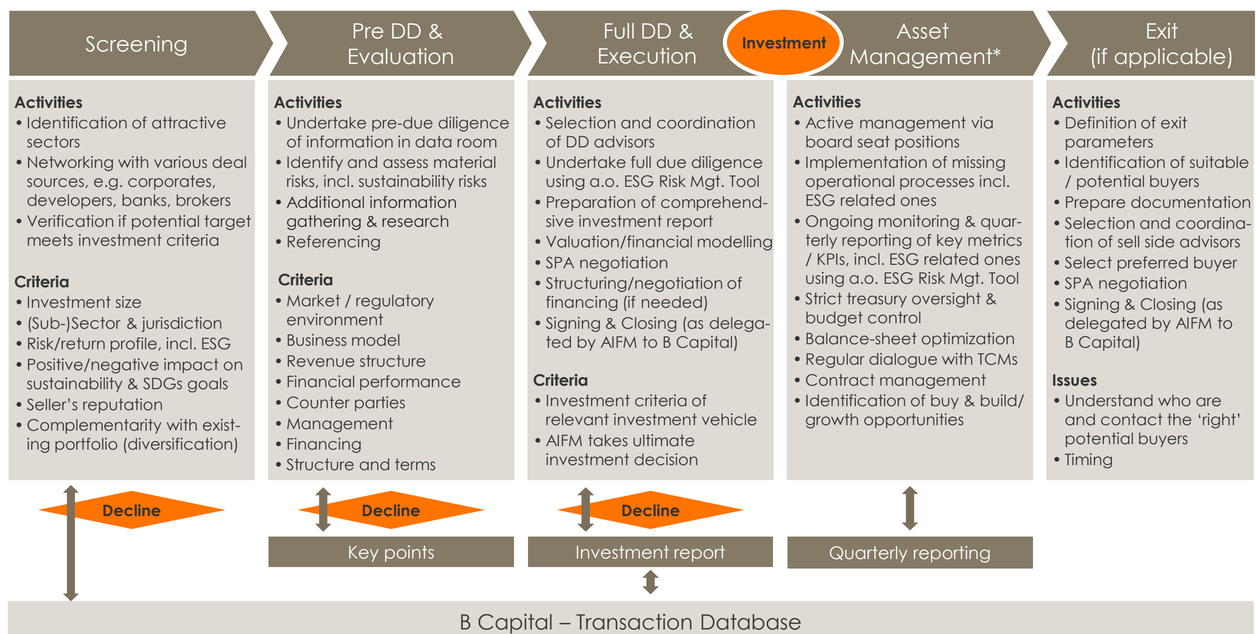

Fig. 1.1 ESG integration into investment process – Illustrative

2. Sustainability Integration

2.1. B Capital's Commitment to Sustainability

From an early stage, B Capital has demonstrated its commitment to assessing the impact of sustainability risks and opportunities - here also interchangeably referred to as environmental, social and governance ("**ESG"**) risks and opportunities – on the business case of any given asset. Consequently, B Capital integrates ESG risks and opportunities (together, **ESG factors**) into both its investment due diligence as well as ongoing monitoring processes post acquisition.

Moreover, this commitment goes beyond strategy and internal processes, as leading publications (e.g. "Infrastructure as an Asset Class, Wiley 2010 (1. Ed.) and 2016 (2nd. Ed.)) and membership in various industry initiatives: UNPRI, GRESB, CCRI) demonstrate. As a UNPRI signatory since 2017, B Capital has also incorporated sustainability factors into its investment processes according to the the six UNPRI Principles (the "**Principles**").

At B Capital, we do not consider ESG risks as a separate risk category but rather aspects of existing, standard risk categories such as credit risk or reputation risk, for instance. By now, most regulatory frameworks consider ESG-related risk as an integral part of the existing risk categories as well. Notwithstanding, B Capital also assesses those risks on a stand-alone basis/separately due to their specific nature.

B Capital is convinced that ESG factors both, can have a significant impact ON the long-term resilience, the financial viability of infrastructure assets, as well as corporate reputation. At the same time, there can be an impact FROM the asset on the ESG factors.

2.2. Aspects of Sustainability

Sustainability comprises a broad field of topics. As a consequence, agreeing on a commonly agreed definition may be impossible. For the purpose of this document, we adhere to the broadly accepted **definition of sustainability or sustainable development** as suggested in the Brundtland Report[1]:

"*Sustainable development is development that meets the needs of the present without compromising the needs of future generations to meet their own needs*".

Based on the 2030 Agenda for Sustainable Development adopted by all UN members in 2015, the following high level **Sustainable Development Goals (SDG's)[2]** have been agreed upon:

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[1] Report of the World Commission on Environment and Development: Our Common Future (1987)

[2] Further explanations and SDG indicators are defined in the UN Resolution adopted by the General Assembly on 6 July 2017.

Figure 2.1: Infrastructure underpinning sustainable development

Sustainability and the SDG's are operationalised in a broad variety of **ESG** related factors, which the EU Commission defines in these words:[3]:

"Although there is no universal definition of ESG factors within the investment industry, it is widely accepted that ESG factors are a universal concept that include a range of environmental, social and governance factors […]. According to United Nations Environment Programme (UNEP) Inquiry and the United-Nation Backed Principles for Responsible Investment (UNPRI), ESG factors are broadly defined as follows:

(i) ***Environmental (E)*** *issues relate to the quality and functioning of the natural environment and natural systems;*

(ii) ***Social (S)*** *issues relate to the rights, well-being and interests of people and communities; and*

(iii) ***Governance (G)*** *issues relate to the governance of companies and other investee entities."*

2.3. ESG categories

According to SFDR, ESG issues can be categorised as follows:

[3] Chapter 1.2 EU Commission Impact Assessment SWD (2018) 264 final, 24.5.2018

(i) ESG-related financial risk / sustainability risk[4]

"*Environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment*[5]"

ESG-related financial risk could negatively impact credit spreads and rates of return, ratings, future cash flows, valuations of financial and real assets. In this specific context, such risks could affect the assets advised by B Capital on behalf of its investors.

Example: Not considering adequately the demands of indigenous tribes living in the area of a wind farm, could lead to fines and the decrease of the expected returns (= S risk).

(ii) ESG-related financial opportunities / sustainability opportunities

ESG-related opportunities can cause an actual or a potential material positive impact on the value of an investment advised by B Capital on behalf of its investors.

Example: An acquisition of *environmentally* friendly projects today might represent a financial opportunity / increase of the market value over time if the demand and the political support for environmentally friendly assets increases over time (= E opportunity).

(iii) Label-based ESG compliance

An investment, an entity, a process, or any other object fulfilling certain requirements as outlined by a particular standard or label reference guide and earning an outcome (e.g. rating, certificate) based on that particular standard.

Example: An investment is classified as a "environmentally sustainable investment" based on the EU Taxonomy.

(iv) Positive impact investments

[Positive] impact investments are "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return".[6] Positive impact investments can but don't necessarily have to be sustainable investments.

Following SFDR, impact investments aim to have a positive impact on "*sustainability factors*" being "*environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters*".[7]

Example: An infrastructure project generates 100% of its revenues from the production of clean / green energy.

[4] "Sustainability risk" is a term defined by the SFDR, which is used interchangeably with the term "ESG-related financial risk" as ESG is the operationalisation of sustainability.

[5] Art. 2(22) SFDR

[6] The Global Impact Investing Network (GIIN). October 2019.

[7] Art. 2 (24) SFDR

(v) Sustainable Investment

Sustainable investment means "an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff, and tax compliance".[8]

Example: Based on the assessment of an investment target incl. an analysis of KPI's, B Capital identifies that an asset positively contributes to at least one SDG, doesn't significantly harm any other SDG (DNSH) and the target company follows good governance practices. Therefore, B Capital would classify such an investment as a sustainable investment.

(vi) Negative impact / Principal Adverse Impact (PAI) on Sustainability Factors

Negative impact means an adverse impact on sustainability factors caused by an investment.

Example: An asset that was selected through B Capital's investment process caused water pollution.

(vii) Responsible Investment (UN PRI)

UN PRI defines responsible investment as: "*ESG as a lens through which investors can identify potential investment risks and opportunities in a systematic way*"[9]

Example: B Capital acquires an asset after having carefully considered ESG-related risks and opportunities (amongst other factors) as part of its investment process. During the due diligence process it identified effective engagement strategies in order to reduce the ESG-related risks.

Please note: any asset can simultaneously fall into different ESG categories as defined by SFDR (see above). Dependant on the context, ESG categories can have different relationships with each other, e.g. they can be independent of each other, positively or negatively correlated.

Example: An investment into an eco-friendly technology might be considered a positive impact investment as well as fulfil certain green standards (e.g. based

[8] Art. 2 (17) SFDR

[9] UN PRI (2019). „Responsible investment overview".

on the EU Taxonomy). At the same time, it might present an investment opportunity in light of the rising demand for green investments. The investment can still be subject to an ESG-related market risk caused by the transition, e.g. high competition in the market.

2.4. Product Categories

B Capital distinguishes between the following product categories in accordance with the Sustainable Finance Disclosure Regulation (SFDR):

Art. 6 - product[10]	**Transparency of the integration of sustainability risks** It is not the investment objective of the product to make a positive impact on sustainability factors.
Art. 8 - product[11]	**Transparency of the promotion of environmental or social characteristics in pre-contractual disclosures** It is part of the investment objectives to promote at least one environmental and / or social objective.
Art. 9 - products[12]	**Transparency of sustainable investments in pre-contractual disclosures** It is part of the investment objectives to make sustainable investments.

2.5. Mutual impact of sustainability and infrastructure assets

As forward leaning investor, B Capital has long understood that sustainability factors and infrastructure assets have a mutual effect on each other: the impact FROM the asset on its surrounding and the impact ON the asset from its surrounding (see Fig. 2.3).

Impact FROM the asset

- Infrastructure assets may have a positive or negative impact on the surrounding - environment or society;
- Examples: environmental degradation, pollution, improved access to basic services, health and safety for workers, corruption etc.;
- A reaction from the surrounding back onto the asset may occur, e.g. tax breaks or societal backlash such as strikes or boycotts;
- Financial consequences for infrastructure assets can be of direct or indirect nature, e.g. via reputational risks.

[10] Art. 6 SFDR
[11] Art. 8 SFDR
[12] Art. 9 SFDR

Negative impacts of infrastructure assets on their surrounding (environmental and social) often tend to impact a public good (air, water). As a consequence, they do not harm or benefit the owner of the asset directly unless the regulator intervenes.

Impact ON the asset

- Surrounding – environment or society – may affect positively or negatively – the infrastructure asset;
- External impacts on the asset are primarily physical or regulatory in nature;
- Examples: floods, droughts, (natural) resource constraints, pollution, demographics, riots, regulatory changes etc.;
- Assets built to be resilient to external repercussions can anticipate, accommodate, absorb or recover from such impacts.

Sustainability and infrastructure assets – mutual impact

Considering ESG issues early on in decision making processes enables to increase resilience of an infrastructure asset and to minimize future risks

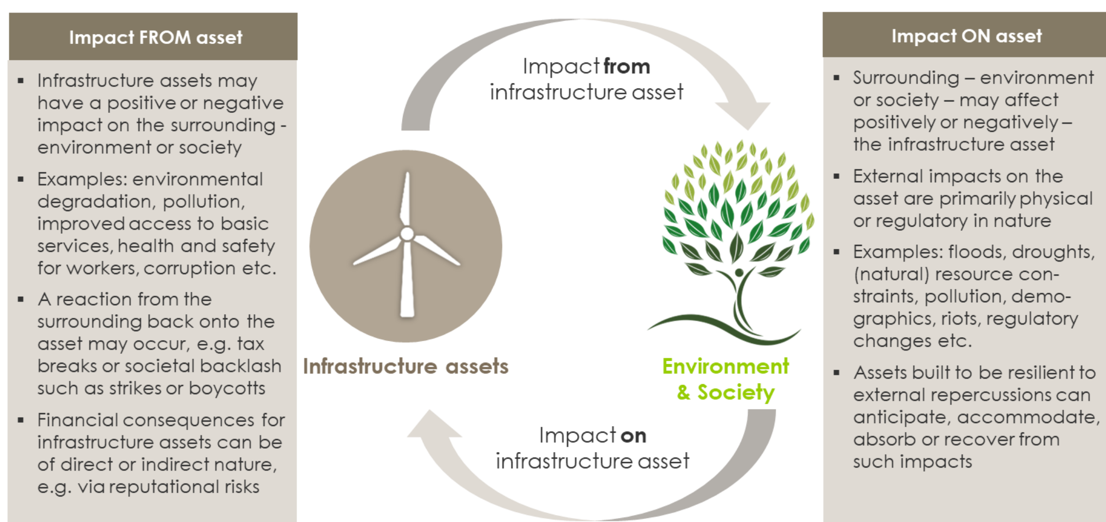

Fig. 2.3: Sustainability and infrastructure assets – mutual impact, Source: B Capital Partners AG

Notwithstanding the fact that consequences on the surrounding and from the surrounding are particularly difficult to assess, evaluate and quantify, difficult is not synonymous with impossible: these – positive or negative – impacts can be quantified or at least assessed, judged or estimated using an ESG risk framework. This is what B Capital does for every single investment opportunity, using its own proprietary ESG risk management tool (the "**ESG Risk Management Tool**", see Section 2.7), as part of the due diligence process.

2.6. ESG risk assessment

Infrastructure assets are exposed to ESG risks during their entire lifetime. Therefore, early integration of ESG risks, starting with the investment due diligence prior to acquisition, is as important as assessing any other risks when evaluating the feasibility of transaction in order to anticipate their potential impact.

The chart below illustrates how B Capital integrates the ESG assessment into the investment process (see Fig. 2.4).

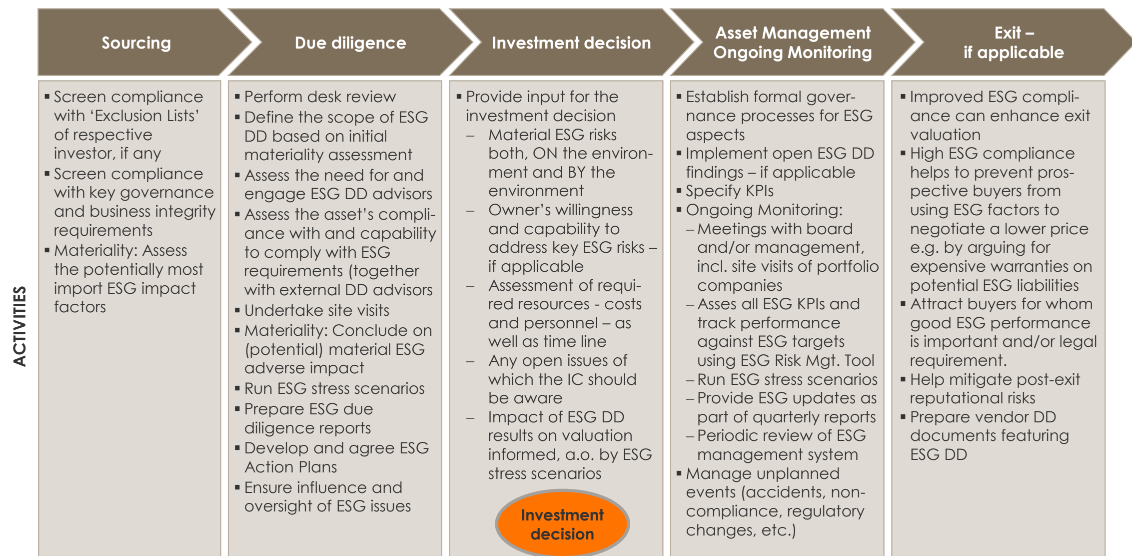

Fig. 2.4: ESG integration in the investment process, Source: B Capital Partners AG

The following selected examples illustrate potential ESG risks and their respective impacts, which the investment due diligence process could uncover:

(E)nvironmental

Environment-related risks are driven by environmental factors. They should be understood as the financial risks posed by the institutions' exposures to assets that may potentially contribute to or be affected by climate change and other forms of environmental degradation (such as air pollution, water pollution, scarcity of fresh water, land contamination, biodiversity loss and deforestation). Climate-related risks may arise from transitional risks as a consequence of the transition to the low-carbon economy or from physical risks as a consequence of the physical effect of climate change.

(S)ocial

Companies may face prosecution or fines if neighbours, workers or contractors are injured or killed due to physical or chemical hazards, noise, heat, dam failures (hydropower), etc. Surrounding communities may be exposed to long-term health and safety risks arising from noise and vibration, electromagnetic fields, air and water emissions, and waste disposal. Any of this could result in costs, liabilities

and reputational damage for a company, which in turn may impact future revenues.

(G)overnance

Infrastructure assets might be exposed to business integrity issues during the construction (generally higher risk) or operation phase (generally lower risk). In some countries, demands for small bribes or facilitation payments are notoriously common. However, the size and prevalence of such demands does not make them acceptable and companies must have strong systems in place to prevent the giving or receiving of corrupt payments. A large portion of this risk can be avoided by choosing low-risk jurisdictions and recognized suppliers.

All ESG factors relevant for the investment opportunity in question have to be considered from an economic, technical and regulatory point of view. Current prescriptions and potential changes in the environmental law with respect to e.g. decommissioning obligations, climate related requirements etc. are part of the initial investment ESG risk assessment.

To do so in a systematic, structured, and diligent way, B Capital uses its proprietary ESG Risk Management Tool, which evaluates the potential ESG related financial risks of each individual investment.

In addition, B Capital started, more recently, to also assess impact of infrastructure assets with respect to reaching selected sustainability development goals ("**SDGs**"). These can be positive or negative (see Section 2.3).

2.7. ESG Risk Management Tool (Art. 3/6 SFDR)

B Capital has developed the **ESG Risk Management Tool** to assess ESG risks and opportunities. It has done so in collaboration with GRESB, a leading ESG benchmarking service provider for infrastructure and real estate assets. During the due diligence, the Investment Team, as well as the selected legal and technical advisors, use the ESG Risk Management Tool to record, score and address potential ESG risks and opportunities as well as the sustainability profile/impact of the potential investment. The material results of the ESG assessment are also used as an input for sensitivities/stress scenarios of the valuation model to the extent possible/applicable.

Ad-hoc expert appraisals provide additional support to B Capital when populating the ESG Risk Management Tool and assessing the ESG risk of a specific asset. basis. Following the transaction, B Capital will monitor and report regularly changes in the ESG profile compared to the status at time of acquisition.

The ESG Risk Management Tool includes a list of potential risks that are assessed and given a score on a scale from 1 – 25 with regard to their probability of occurrence (likelihood), e.g. once in 100 years or once in 5 years, and their magnitude (consequence), e.g. loss of 1% in market value or loss of 20% in market value. Each of them is grouped into one of 5 categories from "low risk" to "high risk". This connection to quantitative magnitude and probability implications allows for

consistent application of the qualitative scores between the different people using the Tool as well as scorers over time.

The scores are based on the expert judgement of the selected advisors in discussion with B Capital following the assessment of the relevant underlying data, incl. miscellaneous KPI's. In most cases, the risk scores represent a qualitative judgement based on all relevant quantitative and qualitative information available. To ensure documentation of processing and future traceability, the assessors have to provide an explanation of the basis or reasoning behind their qualitative judgement.

The risk score of any given ESG factor, may in some cases trigger action. As a rule, the risk category "low" (score 1-5) triggers no action except in case of "no go" risks listed as part of the exclusion list (please refer to Section 3.3 exclusions). Risk categories low-medium (score 6-10) and medium (score 11-15) trigger a qualitative discussion with the advisors and/or internally. Clear conclusions and next steps will be agreed and documented in the ESG Risk Management Tool. Risk categories medium-high (score 16-20) and high (score 21-25) trigger further due diligence and – to the extent possible datawise and meaningful – the calculation of stress scenarios for the identified risks. Depending on the outcome, B Capital will either interrupt the due diligence process or identify appropriate mitigating actions.

ESG factors observed triggering action for exclusion on an asset already in the portfolio (vs. acquisition process) would prompt a review procedure specific to both the nature of the risk and the asset in order to identify the most appropriate course of action for this particular situation.

Each investment opportunity / asset in the portfolio will, going forward, receive a "total risk score". In principle, the score will be equal to the highest risk score amongst the ESG factors considered. With this risk-based approach, B Capital can account for the highest risk and avoid high risks being offset by low risks.

2.8. Negative Impact Assessment (PAI, Art. 4/7 SFDR)

Potential negative, mainly physical impacts FROM an envisaged investment target or an existing portfolio company ON its surroundings (essentially environment and society) are integrated into and considered as part of the ESG Risk Management Tool. The due diligence process provides an in-depth assessment of the potential material impacts the asset in question could have on ESG factors. To the extent available, the analysis uses set targets as a benchmark for the results.

Notwithstanding the above, B Capital does not, at the moment, consider the principal adverse impacts (PAIs) of its investment decisions on ESG factors as per Art. 4 (1) (b) SFDR. More precisely, B Capital falls under the general exemption from the disclosures covered by Art. 4, whereby there is no legal obligation to formally perform and / or disclose the PAIs since it has less than 500 employees as of the release date of this Policy. While B Capital generally considers negative impacts for a number of asset classes, it decided not to "opt in" formally based on the proportionality principle and the uncertainties surrounding future regula-

tory requirements. B Capital monitors the regulatory landscape continuously, including the development of Regulatory Technical Standards (RTS), and will reassess its position if and when it becomes appropriate. In the meantime, work will continue to further improve the methodology for assessing negative impact assessment on ESG factors (refining its ESG Risk Management Tool for this purpose) including publication of relevant PAI results on a voluntary basis. Thus, B Capital will communicate transparently to its investors and to external stakeholders on development concerning the implementation status of the PAI framework.

2.9. Positive Impact / SDG Assessment (Art. 8/9 SFDR)

B Capital is in the process of developing an environmental and social impact tool based on the 17 SDGs ("**Positive Impact Tool**"). During the due diligence process, the Investment Team as well as the selected legal and technical advisors will use the new Impact Tool to record, grade and address positive SDG impacts. Firstly, B Capital will identify up to five material impacts associated with the investment generating a positive impact for the environment or the society, which will be measurable and can be influenced to increase over the lifetime of the investment.

Then, B Capital will assess the magnitude of the impact (on a scale ranging from (1) marginal & short to (5) deep & long-term). In a next step the impact is assessed along two dimensions: quantity ((1) few to (5) many) and "how well served" the affected environment/society is ((1) well-served to (5) under-served).

The selected expert advisors, together with B Capital, will generate the score following the assessment of the relevant underlying data, incl. a number of KPI's. The sum of the score of the previous three steps will get multiplied with a factor depending on whether the impact is derived from core (5x), ancillary (3x) or peripheral (1x) investment activity resulting in a total score. The results of the Positive Impact assessment will also be used as an input for the sensitivities of the valuation model, to the extent possible/applicable.

3. ESG integration in risk management

A comprehensive risk management framework considers all risks relevant to the individual asset, including ESG risks, from the start of the due diligence process and over the entire duration of the investment. The ultimate goal of risk management is to ensure that the risk profile of any given asset as well as that of the portfolio of the given investment vehicle as a whole is in line with the strategy and objectives of the investment vehicle in question as outlined and disclosed in the offering documents or whatever the applicable document may be.

3.1. Responsibility of the risk management function

Formally, the risk management function for any investment vehicle for which B Capital is mandated as Investment Advisor is the responsibility of the capital owner, or of the AIFM in question, depending on the specific structure.
Notwithstanding this, B Capital supports the capital owner or the AIFM in risk management related activities as part of its role as Investment Advisor. To that effect, it has established its own inhouse risk management as an integral part of the investment process conducted for any investment opportunity. Doing this, B Capital strictly follows the written operating instructions and delegated tasks of the capital owner or the AIFM, and seeks for pre-approval in case of decisions outside of the framework of the standard operating instructions and delegated tasks.

The Investment Team member(s) assessing and/or monitoring an investment opportunity, take over the supportive risk management function with respect to the assets they analyse or oversee. He/she reports directly to B Capital's Investment Committee or Asset Management/Portfolio Committee, as the case may be, which is responsible within B Capital for overseeing the risk management for that specific asset and which need to ensure that the asset in question meets its ongoing obligations.

3.2. Risk management process

The Investment Team follows a rigorous risk management process during the investment due diligence process (see graphic below). It constitutes the core of the due diligence process pre-acquisition and also sets out the risk parameters to be monitored and reported during for as long as the asset is part of the portfolio.

The Investment Team first identifies, analyses, and evaluates the intrinsic risks (including ESG risks) at asset level which may negatively impact the investment vehicle as a whole. It then assesses ways to reduce the risks or "distribute" the risks elsewhere via various kinds of risk-mitigating actions.

B Capital has developed skills and techniques, successfully applied during the course of past transactions, to mitigate the risks identified during due diligence. Depending on the specificities of the transaction, risk mitigation techniques may revolve around the following steps:: (i) identify and prioritize the most material risks and their probability of occurrence (from red-flag reports by the due diligence advisors); (ii) analyse, evaluate and quantify, to the extent possible, their

economic impact in the valuation model (sensitivities and scenario); (iii) "distribute" risks to the seller through e.g.: negotiated indemnifications or price reductions (for known risks), long-term supply and demand agreements to take out, for example, market risk, or with underwritten W&I insurance policies for unknown acquisition risks; (iv) define clear responsibilities between the various parties involved to ensure that all identified risks are monitored and audited as required while holding the assets.

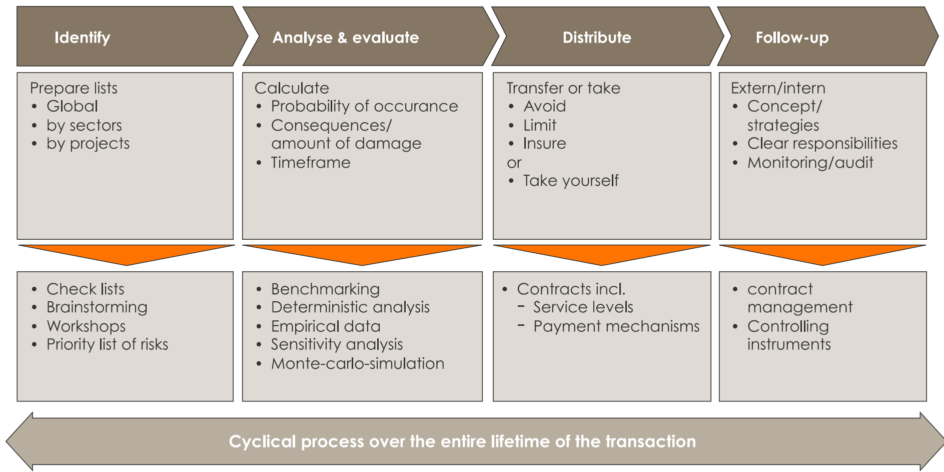

Fig. 3.1 Risk management process, Source: Infrastructure as an Asset Class, Weber et al. 2016 Wiley.

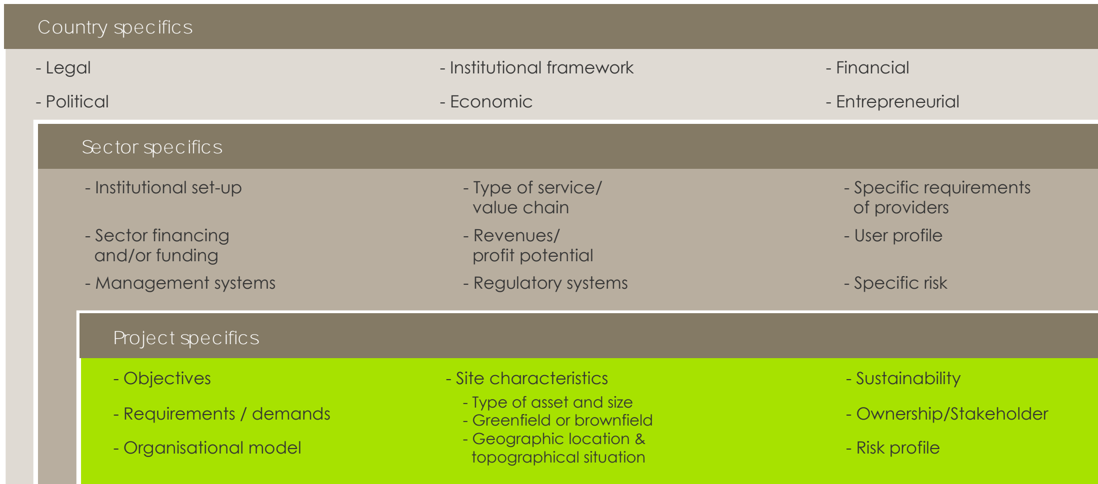

Fig. 3.2 Risk taxonomy - illustrative, Source: Infrastructure as an Asset Class, Weber et al. 2016, Wiley

To increase the chances of selecting the right investment opportunities from the outset, B Capital follows its proprietary risk taxonomy (see Fig. 3.2) which helps to structuring and identifying the risks associated with infrastructure investments. It also allows for an optimised priorities' setting during the due diligence phase.

3.3. Exclusions

Sustainability or ESG (Environmental, Social, Governance) considerations are an integral part of B Capital's investment as well as risk management process.

These processes are designed to reject investment opportunities if essential sustainability related criteria are not met at the point of initial screening and again before acquisition. For assets already in the portfolio, the exclusion list triggers action as appropriate.

In addition to our proprietary ESG Risk Management Tool, which guides us in these processes, a number of sector related exclusions apply upfront to all of our portfolios. Hence, B Capital will not invest in:

- Adult entertainment;
- Alcohol and Tobacco;
- Deforestation and palm oil;
- Hydrocarbon exploration, extraction, and refinement;
- Military contracting and any kind of weapons;
- Mining;
- Nuclear and coal-fired power plants and related supply chain infrastructures;
- Nuclear and toxic waste treatment;
- Overfishing.