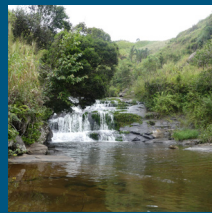




SUSTAINABLE
INFRASTRUCTURE
ESG REPORT
2020

 DENHAM CAPITAL



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1 REFLECTING ON 2020

2020 has reshaped how each of us goes about our daily lives, creating a world of uncertainty, but crucially one of opportunity. The world looks to 'build back better' from COVID-19 and the demand for sustainability from investors, governments, and other stakeholders, including employees has never been so strong.

Since 2006, Denham through its portfolio companies has owned interests in 5+GW of clean power and associated infrastructure across investments in 21 companies and 50+ projects. Measured at the time of investment, Denham portfolio companies have owned the largest solar project in Italy (2009), the largest solar project in Australia (2014), the largest solar project in Uruguay (2015) and the first non-subsidized hybrid wind and battery storage project in Australia (2019). During 2020, our clean energy power projects provided over 2,000 jobs and generated an estimated 915,000 tonnes of CO2 savings (the equivalent of offsetting the emissions of nearly 200,000 passenger vehicles in one year).

For the Sustainable Infrastructure team at Denham, strong ESG management has been a core theme in the way in which we invest from our early involvement in power projects. Why do we place so much importance on ESG? In our experience, projects with high ESG standards are better run, have lower costs and are less likely to face delays. Given the long-term nature of our projects, developing positive relationships with the community and supporting them through local community projects is crucial to the success of our investments. Our experience is supported by academic research which shows that companies that pay attention to ESG create more value than those that do not. The tables are turning, and strong ESG management is now not just seen as a tool to minimise risk but also to create value.

As we reflect on the last year, 2020 was definitely a challenging year. At the beginning of the pandemic, our priority was to implement back up recovery plans at all our offices and project sites. Our investment team and portfolio companies, like many, had to adapt to working from home. The bigger challenge was protecting the health of employees at site, contractor workers, and nearby communities and we are proud of our portfolio companies in implementing COVID-19 health and safety management plans. In addition to putting in place risk mitigation plans, our portfolio companies have been involved in a number of initiatives to support the community. For example, Rio Energy, our portfolio company in Brazil, donated 350 COVID-19 tests to a hospital near one of its project sites in northern Brazil and supported local communities through donations of masks, basic necessities and food. During 2020, the company was also involved in a match funding campaign with the Brazilian Development Bank (BNDES) and raised \$45,000 to support front line workers in Brazil. The COVID-19 experience has reminded us how important the 'S' of ESG is, and the importance of supporting multiple stakeholders.



SCOTT MACKIN
MANAGING PARTNER



JUSTIN DEANGELIS
PARTNER



SABINE CHALOPIN
SUSTAINABLE INFRASTRUCTURE
ESG & IMPACT DIRECTOR

In 2021, we will be setting up an ESG Steering Committee which will include our partners, Legal Counsel, ESG Director and an external ESG specialist to discuss not only portfolio company ESG performance but also to discuss initiatives that Denham should be participating in. For example, one of the initiatives which we are carrying out is reporting on Task Force on Climate related Financial Disclosure (TCFD) for the International Power Fund. This is building on work which we have been carrying out in the last few years, looking at transition and physical risks from climate change as well as investment opportunities. We intend to roll this exercise out for all future funds as well.

We are also closely following the developments and consolidation of ESG frameworks and standards and agree with the market sentiment that there are currently too many reporting standards. We believe that just as there was consolidation in the accounting standards in the 1970s, there will be harmonisation of ESG and impact metrics over the next couple of years. We are keeping a close eye on the work of the International Financial Reporting Standards Foundation (the organisation that oversees the International Accounting Standards Board) in their drive to consolidate ESG and impact frameworks and metrics, with announcements expected to be made at the UN climate change conference COP26 in November 2021. We believe that this standardisation, together with the new EU rules requiring ESG disclosures, will help move more capital into sustainably focused investments.

With this context, we are delighted to provide an overview on how we manage ESG issues and look to increase positive impact through our investments in the energy sector.

WE BELIEVE THAT ESG FOCUSED INVESTMENTS PERFORM BETTER. WHAT DO THE STUDIES SAY?

- **Institute of International Finance**: 85% of ESG equity indices outperformed non-ESG peers in Q1 2020, as have 80% of ESG fixed income indices in Q2 2020
- **Morningstar** looked at a sample of 745 Europe based sustainable funds against 4,150 traditional funds, and found they matched or beat returns in all categories – whether bonds or shares.
- Sustainable funds have greater survivorship rates than non-ESG vehicles (on average, 77% of ESG funds that were available 10 years ago still exist, compared with 46% for traditional funds)
- Investors have been willing to pay up to 7bp to own ESG Bonds (BNP Paribas)

%

81%

of sustainable indices outperformed their non-sustainable counterparts in 2020



ESG has always been important to us and is embedded in our investment process. We are continuously looking to improve our ESG practices under this over-arching umbrella, from climate change to diversity and inclusion and community engagement. This is not just the responsibility of an ESG specialist but the whole team, from senior management to associates.

SCOTT MACKIN
MANAGING PARTNER

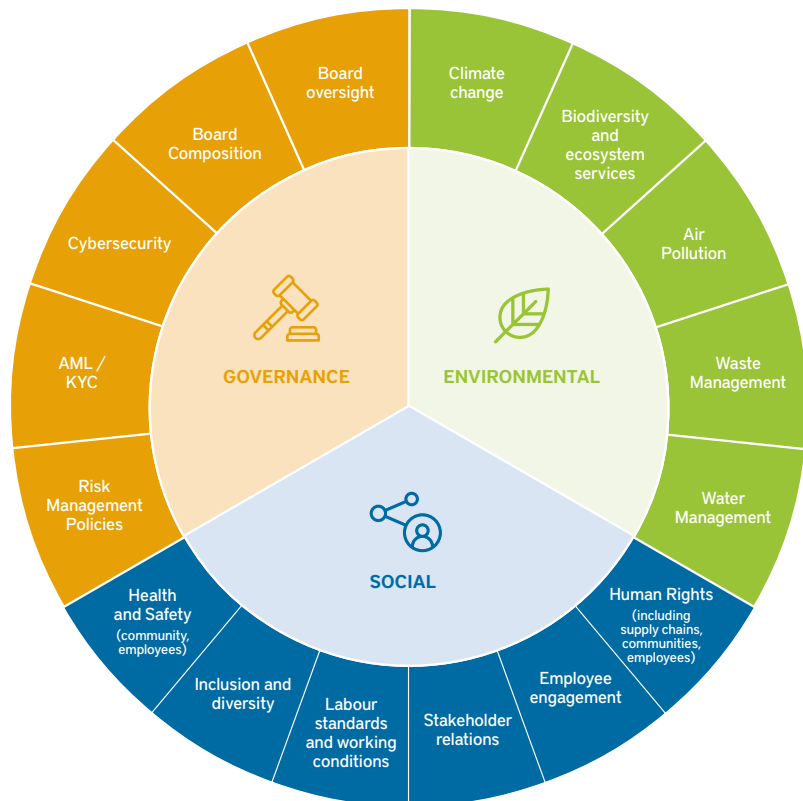


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WHAT DOES ESG COVER?

Within the ESG 'umbrella' we have mapped out the material impacts across our portfolio that matter most to our portfolio companies, projects and their stakeholders (including communities), our investors and regulatory agencies. We use these ESG material factors in our screening and due diligence assessment as well as during the ongoing management of an asset through its investment lifecycle.

We continue to be focused on climate risks (both physical and transition) as well as the opportunities. Participating in the Taskforce on Climate-related Financial Disclosures (TCFD) reporting is helping us to formalise our climate-related activities and governance structure. We also believe that we all have a role to preserve biodiversity and any impacts must be managed as a priority. For the 'S' of ESG, we are focusing on inclusion and diversity within our investment team. At the project level, our priority is the health and safety of teams on site and protecting human rights. Our governance frameworks, which have to date focused on business integrity and governance structures is broadening out to see how we can have more gender balanced boards.



ESG is now getting the recognition it deserves, but we can't stop here. We need to push the agenda forward and what is considered 'best practice'.

SABINE CHALOPIN
ESG DIRECTOR



3 ESG MANAGEMENT

ESG is managed at the Board level, within Denham and our portfolio companies. The Board is supported by the portfolio company’s ESG team and Denham’s ESG Director. Internally, our Investment Committee is informed and updated on key ESG actions for each of our investments. In 2021, we intend to set up an internal ESG Committee which will include Denham Partners, Legal Counsel, our ESG Director and an external ESG specialist.

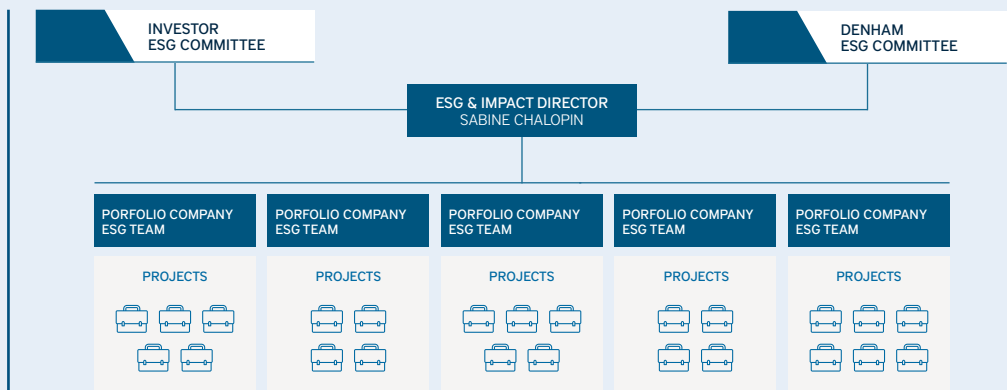
The Denham ESG Committee will convene bi-annually to discuss ESG performance of investments and initiatives to ensure that we continue to be leaders in implementing best practices. The Denham ESG Committee is also responsible for overseeing the work of Task Force on Climate Related Financial Disclosure (TCFD) reporting.

We provide ESG training to our investment team and portfolio companies by regularly hosting a series of workshops with third party specialists. In 2020, this training included:

- Assessment and management of biodiversity (specifically the implementation of IFC Performance Standard 6), conducted by the biodiversity specialist, the Biodiversity Consultancy.
- Occupational Health and Safety best practices, conducted by the sustainability consultancy, ERM.
- Task Force on Climate Related Financial Disclosure (TFCD) for the Denham sustainable infrastructure team, conducted by ERM.

At the portfolio company level, each company has an ESG manager or team. This ESG Manager and Denham’s ESG Director work closely together to ensure that projects are being developed as required. When an asset is under construction, each project will have an E&S team on the ground. This will include an E&S Manager, Community Liaison Officers, a Health and Safety Manager, and where necessary, a biodiversity specialist (which can be a third-party specialist).

ESG Committee



At the organization level, ESG is considered at multiple levels, from our ESG committees (both internal and investor), to our ESG Director, through to portfolio companies and on the ground, at project-level.

4 ESG PROCESSES

ESG considerations are integrated throughout the investment lifecycle; at the pre-investment stage, steps include screening against an Exclusion List, for example in the Denham International Power Fund, we will not invest in gas powered projects where the CO2 emissions are above 550gCO2 / kWh.

Our portfolio companies use reputable third-party consultants to carry out environmental and social impact assessments for all projects. These studies are carried out early in the development timeline as they can be time intensive. For example, for biodiversity assessments, it may be that baseline studies need to be carried out over a year to cover both wet and dry seasons. For the acquisition of operating assets, third-party consultants are engaged to carry out environmental and social due diligence.

Post-investment, regular interaction between our portfolio companies and ESG Director are carried out to monitor ESG performance against agreed action plans.

All our project Investment Committee papers include an ESG section as do quarterly Board presentations.

SCREENING	PRE FINANCIAL - CLOSE	INVESTMENT DECISION AND AGREEMENT	OWNERSHIP & VALUE CREATION	EXIT
<ul style="list-style-type: none"> Check against Exclusion List Evaluation of adherence to national regulations (OECD markets), IFC PS (non-OECD markets) Identification of key risks and opportunities for ESG value creation 	<ul style="list-style-type: none"> Environmental and social impact assessments are carried out (including biodiversity assessments) Third-party due diligence for operational projects 	<ul style="list-style-type: none"> ESG is a central part of IC decision-making process IC paper includes Environmental and Social Action Plan Documentation includes ESG commitments 	<ul style="list-style-type: none"> Monthly review of ESG performance between Denham and investee Quarterly board meetings to include ESG updates Biannual Denham ESG Committee meeting Quarterly LPAC ESG meeting Annual ESG reporting 	<ul style="list-style-type: none"> Inclusion of ESG activities to be included in marketing materials Preference for buyers who have similar ESG buy-in

5 FRAMEWORKS, STANDARDS AND METRICS

We use the UN Sustainable Development Goals (UN SDGs) as a framework to understand which goals our investments are contributing towards. For example, the investment strategy of the Denham International Power Fund contributes to UN SDG 7 “Affordable and Clean Energy”. The investment strategy also provides employment opportunities, contributing to UN SDG 8 “Decent Work and Economic Growth” and the community related projects contributes to several other UN SDGs. Our [Impact Report](#) provides our disclosure of the Operating Principles for Impact Management.



UN SDGs

The Standards and guidelines we follow include:

- National regulations
- The IFC Performance Standards
- World Bank Environmental, Health and Safety guidelines
- EIB Environmental and Social Standards
- ILO Core Labour Standards and ILO Basic Terms and Conditions of Work
- UN Guiding Principles on Business and Human Rights
- US Foreign Corrupt Practices Act and UK Bribery Act



As we look to expand our existing renewable and ESG capabilities to broader sustainable infrastructure, we are excited by the contribution we will be making towards the United Nations Sustainability Goals.

JUSTIN DEANGELIS
PARTNER



5

FRAMEWORKS, STANDARDS AND METRICS

continued

GRESB

The Denham International Power Fund (DIPF) has been reporting against the GRESB Infrastructure Benchmark Assessment for the last 3 years. This assessment includes two parts– the management component of the Fund (covering leadership, policies, risk management and other) as well as the performance component covering operating assets. As our assets in DIPF are in development and construction stages, we do not currently participate in the full GRESB infrastructure assessment but are encouraged by the results of our management component, which is above the GRESB average. Our ESG Director is a member of both the Infrastructure Benchmark Committee and an Industry Working Group to explore how GRESB could also cover assets under development and construction. We believe that the GRESB framework is helping infrastructure funds continuously push the boundaries in terms of ESG best practices and we look forward to participating in the full GRESB assessment in subsequent years.

WHICH ESG METRICS?

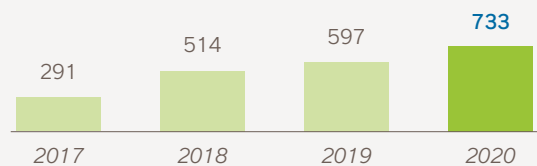
The plethora of ESG metrics and standards has added complication to the meaning of ESG and the search for consistent measuring. In response to this challenge, the International Financial Reporting Standards Foundation (IFRS) has recently announced that it is considering the creation of a Sustainability Standards Board (SSB) to drive the consolidation of ESG and impact metrics, with a potential announcement at COP26. Needless to say, we expect there to be further convergence on reporting frameworks and will continuously keep abreast of developments to ensure that we are reporting against the most appropriate and relevant framework.

KEY PERFORMANCE INDICATORS – SUSTAINABLE INFRASTRUCTURE

MW operational

733

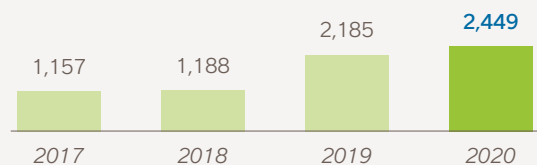
2020



GWh of power generation

2,449

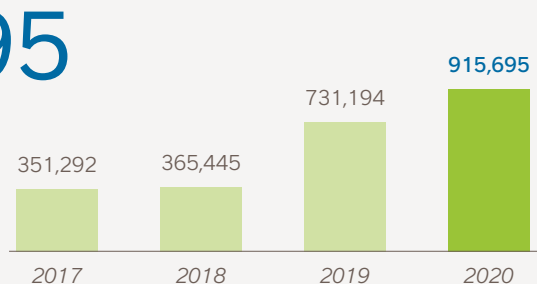
2020



CO2 savings

915,695

2020

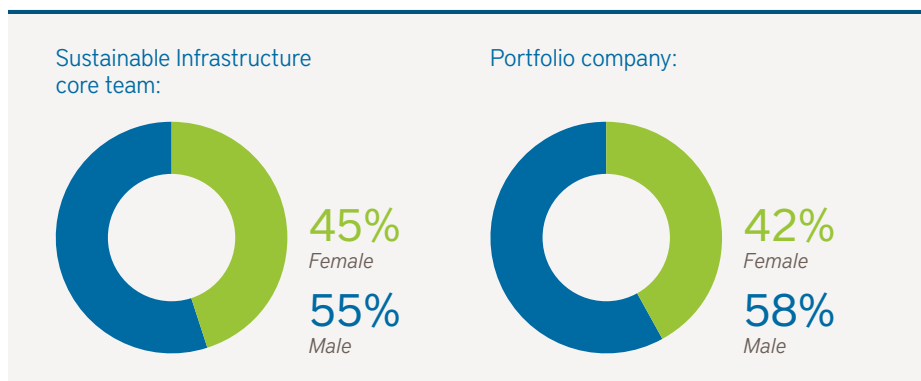


6 DIVERSITY AND INCLUSION

At Denham, we recognise that a diverse and inclusive work culture brings viewpoints and perspectives that lead to better problem-solving, increased productivity and a workplace which retains top talent. Any recruiting agency we engage with must present a pool of qualified candidates, at least 50% of whom must be diverse. As of 2020, our team (which includes the Sustainable Infrastructure team and supporting back office) is 50% diverse¹. We intend to strengthen our practices on diversity and inclusion by collaborating with our peers to learn from each other.

After several months of our employees working from home during COVID-19, Denham carried out an employee satisfaction survey. The results showed our employees unanimously felt supported by the efforts put in place by the Partners and our HR team starting in March 2020 onwards. Additionally, the Sustainable Infrastructure team underwent an employee engagement survey. With these results the senior management team is collaboratively addressing opportunities for improvement as we progress forward in 2021. We intend to continue to solicit feedback yearly from our employees going forward.

Finally, our team in the London office participates in a number of events supporting women in private equity, including Level 20 (a membership organization that supports the goal of increasing the percentage of women in senior leadership in European private equity) and participation in the Women in Infrastructure Forum which is held on an annual basis.



¹ Diverse employees include both women and non-Caucasians. There is no double-counting (i.e. a woman who is also non-Caucasian is counted as one for the purposes of these statistics).

Denham has experienced the privilege of a diverse workforce with inclusive practices for over five years now. As we look towards the future, we continue to challenge ourselves.

DARCY FAVORITE
HR



7

CASE STUDIES

In this section, we share the work of our portfolio companies in the construction of renewable energy projects in different geographies, Brazil, Australia and Côte d'Ivoire. These projects have been developed to international standards and will collectively result in over 400MW of renewable energy.



1



LINCOLN GAP

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SINGROBO

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SERRA DA BABILÔNIA 3

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LINCOLN GAP

The Nexif Energy platform is focused on the development, construction, operations and exit of long-term contracted power assets in select countries in Australia and Southeast Asia. Its portfolio includes the Lincoln Gap wind project located in Port Augusta, South Australia. Only a few years ago, this region was predicted to be wiped out by the closure of coal and steel plants. It has now become a hub for renewable energy with several renewable energy projects in various stage of development, including Nexif's Lincoln Gap wind project, which is the first non-subsidized hybrid wind and battery storage project in Australia.

The Lincoln Gap project is being built in stages. Stage 1 (126MW) became fully operational in 2020 and includes a 10MW grid-scale battery to help with grid stability and reliability. Vestas is currently constructing Stage 2 (86MW) and this phase is expected to become fully operational by the end of 2021. Stage 3 is currently under development, adding a further 250-300MW. During the construction phase of Stage 2, approximately 110 jobs are generated, with 10 employees employed during the operation phase of Stage 1.

As part of the development of this project, Nexif ran a sponsorship program in 2018 to fund activities in the Port Augusta region that would address a community or environment need. For example, Nexif supported the West Augusta Football Club to install energy efficient refrigeration and solar panels – with money saved to be put back into supporting junior sport at the club. Another program included producing a five-part radio podcast for the Umeewarra Aboriginal Radio on climate change and the current transition to renewables in the region.

The Lincoln Gap project is being built in stages. Stage 1 (126MW) became fully operational in May 2020 and includes a 10MW grid-scale battery to help with grid stability and reliability.

136

MW operational

372

GWh Generated

69,768

CO2 savings

86

MW under construction

110

Employment during construction

10

Employment during operation





SINGROBO

Themis Energy is a developer of renewable power generation assets in Sub-Saharan Africa. This region has the lowest energy access rates in the world, with approximately 600 million people lacking access to electricity. Themis' focus is on creating additional base load power using renewable resources. The company's landmark project includes the 44MW Singrobo hydropower project in Côte d'Ivoire. This project is being sponsored by a consortium including Themis, the Africa Finance Corporation (AFC) and IHE Holding, a local development company.

The Singrobo project is located near the Singrobo and Ahouaty villages on the Bandama river and is the first independent power project of its kind in West Africa. Themis is committed to developing all its projects to international standards. For Singrobo, the company engaged resettlement experts to develop and oversee the implementation of a resettlement action plan. Themis also engaged Biotope, a leading biodiversity organisation which includes members of the IUCN (International Union for the Conservation of Nature) to complete the biodiversity assessment and action plan. All studies have been completed to ensure the project meets the requirements of the African Development Bank Operational Safeguards and IFC Performance Standards.

Despite the challenges of COVID-19, construction of Singrobo began in May 2020, with specific COVID-19 health and safety management plans in place. Construction work is being led by Eiffage S.A., a leading French engineering, procurement and construction company. During the construction phase, both IHE and Eiffage are committed to employ local workers where feasible, including from the 5 villages in the vicinity to the project.

The Singrobo project is located near the Singrobo and Ahouaty villages on the Bandama river and is the first independent power project of its kind in West Africa.

44

MW under construction

411

Peak employment in 2020

176

Average employment

142

Of which male

33

Of which female





SERRA DA BABILÔNIA 3

Denham has invested in Brazil since 2012, through our portfolio company Rio Energy, a developer, owner and operator of renewable energy projects in the country. The company has 81 employees, with nearly a 50% split in terms of gender (39 females and 42 males). In 2020, the company was awarded the “Great Place to Work, Brazil” certificate in recognition of the company’s great culture.

Rio Energy has 484MW of operational wind projects spread over 3 projects, with another 144MW under construction and 193MW in the late stages of development. The Serra da Babilônia 3 (144MW) project is currently under late stages of construction and is an expansion of the operating 223MW Serra da Babilônia 1 project. The energy generated by this project will be connected to the Morro do Chapéu sub-station via the existing transmission line.

Rio Energy has always placed significant importance on community engagement and development. During COVID-19, Rio Energy’s work with the community shows that the company goes beyond just getting a ‘social license to operate’. The company has supported local communities in a number of ways. For example, the company has provided masks and supplies to local communities, provided a generator to a local hospital and donated COVID-19 tests to a local hospital in OuroLândia. Rio Energy has also worked closely with the Brazilian Development Bank (BNDES) on a match funding campaign and raised \$45,000 to provide protective health kits for doctors, nurses and other front-line health professionals in Brazil.

Once operational, Serra da Babilônia 3 is expected to generate over 700GWh of clean energy and reduce CO2 emissions by over 200,000 tonnes on an annual basis.

Denham has invested in Brazil since 2012, through our portfolio company Rio Energy, a developer and owner and operator of renewable energy projects in the country.

144

MW under construction

611

Peak employment in 2020

431

Average employment

393

Of which male

38

Of which female



8

NOTICE TO RECIPIENTS

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References to portfolio companies are presented to illustrate the application of Denham's investment process only and should not be considered a recommendation of any particular security or portfolio company. It should not be assumed that investment made in the future will be profitable or will equal the performance of past or current investments.

There are risks associated with investing in securities, including but not limited to erratic market conditions, geopolitical risk, management risk, liquidity, non-diversification risk, focused investment risk, credit and counterparty risk, and possible loss of principal.

As used throughout, "de-risk" means the process of identifying, quantifying and seeking to mitigate risks pertaining to a particular investment. De-risking is generally an iterative process and new risks may emerge after others have been mitigated. "De-risk" does not mean that all risk has been removed from a particular investment.

