

Denham Sustainable Infrastructure

CLIMATE POLICY

Denham Sustainable Infrastructure (DSI)'s overall Responsible Investment Policy establishes our commitment to protecting the environment, people and the communities where our portfolio companies develop, construct and operate projects.

Our Climate Policy is based on the Task Force on Climate-related Financial Disclosure (TCFD) recommendations and covers Governance, Climate Strategy, Risk Management and Metrics and Targets. This Climate Policy is shared with all our Portfolio Companies¹, with specific requirements provided in Appendix A of this policy. In short, we require our Portfolio Companies to:

- Measure Scope 1 and 2 emissions, with an objective of measuring Scope 3 emissions by 2024.
- Where feasible, reduce the carbon intensity of operations
- Assess the potential physical climate related risks and carry out a climate risk and vulnerability assessment where appropriate, with an assessment of adaptation solutions that can reduce the identified physical climate risk
- Report on climate related initiatives in board presentations.

GOVERNANCE

The DSI Board reviews this Climate Policy on an annual basis and has ultimate oversight. Climate change issues (both at a fund and asset level) are discussed by the Investment Committee, where appropriate. The deal team together with Denham's Head of ESG, work with our Portfolio Companies to make sure that the requirements in Appendix A are followed.

ESG matters are integrated in the investment cycle, from screening, due diligence, asset management to exit. Climate change considerations fall within this scope of ESG considerations. For example:

- During the screening phase, investments are screened to ensure that they fall within the investment strategy of DSI (i.e., low carbon transition sector aligned) and material physical risks of climate change are identified and assessed
- Investment Committee: Key ESG items (including climate change issues) are included in reports to these committees.
- Investment monitoring: Annual reporting of Scope 1 and 2 emissions (and Scope 3 emissions by 2024) with the objective of reducing emissions, where possible.

Denham's Head of ESG prepares a report for the DSI ESG Committee on ESG matters for all investments, both at the due-diligence stage and existing investments. This report includes a consideration of climate related risks and opportunities of the DSI portfolio.

¹ This Policy applies to Portfolio Companies in SIF1 and any subsequent Denham Sustainable Infrastructure funds.

CLIMATE STRATEGY

We assess the resilience of our investment strategy to climate-related risks by identifying and assessing transition and physical risks:

Transition Risks: DSI’s investment strategy has continuously been evolving to tap into the investment opportunities of a low-carbon economy. Over time, we have transitioned away from making any new investments in thermal assets, and will only invest in gas power projects in specified circumstances. Our investment strategy focuses on climate change mitigation activities (e.g., renewables, energy storage, EV charging facilities).

Physical Risks: Given the overall transition risk from the DSI portfolio is low (and our investment strategy is tapping into this as an opportunity), our focus is on requiring our Portfolio Companies to assess the potential physical risks from climate change over these time horizons and integrating adaptation solutions. We believe that physical climate change considerations can help with better choices in terms of locations, design or include other engineering features.

As per TCFD recommendations, to assess potential physical climate related risks, we differentiate between chronic and acute risks. The EU Taxonomy² lists these as follows:

Table 1: Acute and Chronic Risks

	Temperature-related	Wind-related	Water-related	Solid mass-related
Chronic	Changing temperature (air, freshwater, marine water)	Changing wind patterns	Changing precipitation patterns and types (rain, hail, snow/ice)	Coastal erosion
	Heat stress		Precipitation or hydrological variability	Soil degradation
	Temperature variability		Ocean acidification	Soil erosion
	Permafrost thawing		Saline intrusion	Solifluction
			Sea level rise	
			Water stress	
Acute	Heat wave	Cyclone, hurricane, typhoon	Drought	Avalanche
	Cold wave/frost	Storm (including blizzards, dust and sandstorms)	Heavy precipitation (rain, hail, snow/ice)	Landslide
	Wildfire	Tornado	Flood (coastal, fluvial, pluvial, ground water)	Subsidence
			Glacial lake outburst	

² This is referred to under the Generic Criteria for Do No Significant Harm (DNSH) to Climate Change Adaptation

SCENARIO ANALYSIS

DSI uses scenario analysis to help us consider opportunities and risks under different transition and physical scenarios:

Transition scenarios

Our approach to transition risk focuses on key assets which are most likely to be impacted by rapid decarbonisation under the IEA Sustainable Development Scenario (IEA SDS) compared to a baseline scenario (Stated Policies Scenario). The Stated Policies Scenario provides a detailed sense of the direction in which existing policies and commitments and plans would take the energy sector out to 2040. The IEA SDS, is aligned with the Paris Agreement and has many advanced economies reaching net-zero emissions by 2050, and puts the world on track for net-zero emissions by 2070. The demand for sustainable infrastructure assets is greater under the IEA SDS compared to the Stated Policies Scenario.

Physical scenarios

Our approach to physical risks is based on two future time horizons based on their relevance to our assets and operations, 2030 and 2050. We have used projected climate data from two of the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCPs). Each RCP represents a scenario that varies based on future projected greenhouse gas emissions and resultant warming over the next century.

- RCP 4.5 assumes that emissions peak at around 2040, then decline, with a resulting increase in global temperature between 2°C and 3°C by 2100. This scenario is closest aligned to the current commitments under the Paris Agreement.
- RCP 8.5 is a 'business as usual' scenario and assumes that emissions continue to rise throughout the 21st century, seeing around three times today CO₂ emissions by 2100. This is essentially the worst-case climate change scenario.

In general, these two scenarios present opposing climate risks to our business. Under the RCP 4.5 scenario, it is expected that there will be fewer physical risks for assets managed under DSI. However, this scenario will require significant incentives to transition to a low-carbon economy, such as policy incentives, a carbon tax and lower technology costs. These incentives will benefit the DSI investment strategy, which is targeting low-carbon sectors.

Under the RCP 8.5 scenario, the rise in temperature may lead to greater physical risks for assets managed under DSI. The incentives to transition to a low-carbon economy will exist but will be less prevalent than the 4.5 scenario.

RISK MANAGEMENT

Transition Risk

Our approach to transition risk focuses on key assets which are most likely to be impacted by rapid decarbonisation under the IEA Sustainable Development Scenario compared to a baseline scenario (Stated Policies Scenario). Our Climate Risk Register includes indicators related to policy and legal, technology, market and reputation. For example, potential supply chain constraints as a result of an

increase in the demand of clean energy technology (market element) or increased price on greenhouse gas emissions for thermal projects (policy and legal).

Physical Risk

We require our Portfolio Companies to screen all new assets to assess the physical risks of climate change and associated adaptation solutions. Following the identification of any potential material risks, we will support our Portfolio Companies in understanding the potential impacts on financial performance, and looking at ways to reduce those material risks.

We use our Climate Risk Register to assess and compare the physical and transition risks of our assets under different physical and transition scenarios.

METRICS AND TARGETS

The DSI team is committed to the Paris Agreement and working towards achieving net-zero emissions for our greenhouse gas emissions. On a yearly basis we track and will report on Scope 1 and 2 emissions for DSI and our portfolio (with the objective of tracking Scope 3 emissions by 2024), with the aim of reducing these emissions over time.

APPENDIX A

Portfolio Company Requirements

Physical Risks of Climate Change

1. During the due diligence phase, screen all new equity investments to identify which physical climate risks (as listed in Table 1) may affect the performance of an asset during an asset's expected lifetime.
2. Where an activity is assessed to be at risk from physical climate risks, portfolio companies should carry out a climate risk and vulnerability assessment (CRVA) to assess the materiality of the physical climate risks on the asset. The climate projections and assessments of impacts should be based on best practice:
 - for activities where the lifespan is less than 10 years, the CRVA should be performed by using climate projections at the smallest appropriate scale
 - for all other activities, the assessment should use high-resolution, state-of-the-art climate projections across the existing range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments
3. Where applicable, the company should integrate adaptation solutions, that reduce the most important identified physical climate risks that are material to that activity at the time of design and construction and these should be implemented before the start of operations.
4. Adaptation solutions should:
 - have no negative impact on the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of cultural heritage, of assets and of other economic activities
 - be consistent with sectoral, regional, or national adaptation efforts
 - promote nature-based solutions or rely on blue or green infrastructure to the extent possible.
5. The results and findings from these assessments should be shared with DSI, and a summary included in board presentations.

Transition Risks of Climate Change

1. On a yearly basis measure and report on Scope 1 and 2 emissions (Scope 3 emissions by 2024)
2. Seek ways to reduce Scope 1-3 emissions over time
3. On an annual basis, report on Scope 1-3 emissions in board presentations