SUSTAINABILITY REPORT 2023

DENHAM CAPITAL

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DENHAM CAPITAL

ABOUT US

Founded in 2004, Denham Capital has raised more than $12 billion (which includes funds now managed by Trace Capital) across multiple sectors. Denham Capital was an early investor in renewables, having started investing in the sector in 2008 and partnering with several large renewables platforms.

In 2021, with investment opportunities broadening beyond traditional power and renewables, the sector team rebranded and is now recognized as Denham Sustainable Infrastructure (DSI). We define sustainable infrastructure as physical assets that support an environmental or social objective with an integrated process of managing risks and opportunities as defined by our Responsible Investment Policy. We use different frameworks to support us in screening investments to assess their sustainability, including the EU taxonomy, Green and Social Loan Principles (2013) and UN Sustainable Development Goals.

Our Sustainability Journey

2004
- Denham Capital spins-out from Harvard Management

2008
- Investment in a European solar project developer

2009
- Built, owned, operated largest solar project globally to-date

2012
- Investment in a global solar development company
- Investment in a Brazilian wind energy platform

2013
- Investment in a southeast Asian renewables platform

2014
- Largest solar project in Australia to-date built

2015
- Largest solar project in Uruguay to-date built

2016
- Largest solar project in Australia to-date built

2017
- First dedicated sustainable infrastructure fund (SIF I)
- Appointment of Head of Sustainability
- Formal sustainability investment framework established

2018
- Annual GRESB Infrastructure Fund Assessment and benchmarking begins

2019
- Hybrid wind and battery storage project built in Australia

2020
- Portfolio companies implement COVID 19 plans for all projects and provide support to local communities

2021
- Aflac announces strategic partnership with Denham, rebranding as DSI
- Establishment of sustainable credit strategy
- Internal Sustainability Committee set-up
- DSI joins Coalition for Climate Resilient Investment

2022
- SIF I is named 'Best ESG Investment Fund: Energy Transition" at the ESG Investing Awards
- Signatory to UN PRI and the ESG Data Convergence Initiative
- Raising new Article 9 targeted fund

2023
- Investment in a US solar development platform
- Participation in Initiative Climat International
- Investment in a UK EV charging platform
- Launch of second Brazilian renewables platform

2024
- Second Party Opinion from Moody's on DSI's Credit Financing Framework

LETTER FROM MANAGEMENT

Last year, the term "ESG" faced significant challenges, particularly in the United States, where ESG intersected with political ideologies and policy discussions. In this year's annual report, we want to address some of the challenges with the term and what we believe the future holds for the ESG moniker. We believe that the acronym has, unfortunately, been too widely used (and at times misused) and more work is needed to strengthen the credibility of the term. To read further on our views on the future of ESG, we invite you to read **How we expect ESG to evolve ↗**

The opportunities, however, for investment strategies targeting sustainable infrastructure continue to grow and, doing so in a manner that addresses material environmental and social risk factors is critical to achieving our end goal of deriving profits for our investors. On pages 13–19 we discuss these risk factors and how we seek to manage them. This is in line with our views that the transition to a low-carbon economy should not result in significant harm to other environmental or social factors. Of course, managing these risks differs between credit and equity strategies and we provide an overview of the process we follow for each strategy.

In this year's report, we also share our goals for 2024 as well the work we do around diversity, equity and inclusion, including an interview with female board members of our portfolio companies.

We hope you enjoy this report and as always, welcome any feedback.

OUR GOALS

Last year, we announced 3 specific goals, which we continue to implement going forward.

1. Net biodiversity impact

Our first goal is that from 2025, all new development projects need to demonstrate net biodiversity impact. Governments, investors, and other stakeholders are recognizing the importance of biodiversity, which unfortunately is disappearing at an alarming rate. Our biodiversity net goal, which applies to new equity investments globally, is a regulatory risk mitigant. For example, at the beginning of 2024, the UK formally announced a "Biodiversity Net Gain" legislation, meaning that all new building projects must achieve a 10% net gain in biodiversity or habitat. As a practical example, if a woodland is destroyed because of a new road, another woodland would need to be restored, ideally on the development site. Alternatively, biodiversity credits need to be purchased from the government. We expect that over time, other countries will follow suit with similar biodiversity legislation. Our biodiversity goal helps to future proof our business as well as making investments attractive for buyers who may have similar commitments around biodiversity.

2. GHG emissions targets

Our second goal was to set greenhouse gas emissions targets for new portfolio companies. To achieve this goal, our new portfolio companies, Solops and EVC, signed up to the Persefoni platform to calculate and track Scope 1-3 emissions. Unsurprisingly, over 90% of the emissions from these two portfolio companies come from their supply chains, or Scope 3 emissions. We are now in the process of understanding how company growth will affect the trajectory of these emissions and how to decouple company growth from emissions growth. Our work with Persefoni can be viewed here.

3. Diverse board members

We also committed to all new portfolio companies having at least one diverse board member within one year of closing, to broaden the perspectives brought to bear on our performance. All board of directors for DSI portfolio companies created after 2023 has at least one experienced diverse board member and we will continue to support diversity, equity and inclusion efforts. This annual report also includes a Q&A ↗ between Scott Mackin and two chairs of our portfolio companies, Anne Currell, Chair of EVC and Ana-Marta Veloso, Board Member of Pontal Energy. Both Anne and Ana-Marta have speciality expertise and provide strong examples of exceptional female leadership in infrastructure businesses.

In 2024, we intend to continue working with our portfolio companies to implement these goals. In addition, in our Investment Committee process, we will seek to understand how the physical risks of climate change could impact financial returns for each asset.

We will also estimate the avoided greenhouse gas emissions from each investment over our investment period and include this in our Investment Committee papers. As part of this exercise, we will calculate the estimated lifecycle emissions of an asset to determine the potential net avoided greenhouse gas emissions of an asset over its' lifetime.

HOW WE EXPECT ESG TO EVOLVE

In the next section, we discuss some of the challenges that we believe need to be resolved to improve the credibility of ESG.

This includes avoiding the use of ESG as a generic term and clearer regulations. At DSI, we support a healthy debate focused on creating truly sustainable investments. We believe that this can be achieved by improving management and reporting of environmental and social risks as well as improved data quality and collection.

We recognize that there is some confusion with respect to the different regulations, frameworks and standards. In Appendix 1, we have provided a summary of some of these – the list is not exhaustive, but we aim to help the reader navigate terms that are often used in the market and which may be referred to in this report.

HOW WE EXPECT ESG TO EVOLVE

CONTINUED

Firstly, to address the challenges that we agree need to be resolved to improve credibility:

1. The blanket use of the term

One of the challenges with ESG is that the term has been so widely (and often) misused. ESG is not a monolithic subject; it covers a multitude of topics from climate change, biodiversity, labor and working conditions, diversity, equity and inclusion, and the governance of these issues. However, too many funds have labeled themselves as ESG, without a clear or transparent indication of what they would or wouldn't invest in, or which aspect of E, S, or G they are managing. Consider two funds, one investing in healthcare with little concern of environmental issues, such as managing hazardous waste, and a second fund investing in renewables, with little disregard for community issues. Whilst they each contribute towards an ESG objective, they neglect other material environmental and social factors.

Regulations have stepped in to prevent this confusion with disclosure requirements, the most notable being the EU's Sustainable Finance Disclosure Regulation. What we like about the EU SFDR and the EU taxonomy is the principle of 'do no significant harm' to other environmental and social objectives, to prevent the disregard of other negative externalities as described above. However, the EU SFDR has had its own teething problems (see Confusing Regulations below), which one could argue has provided ammunition to the anti-ESG movement, citing undue compliance burden and costs in complying with ESG regulations.

2. Confusing regulations

The ultimate objective of the European Sustainable Finance Disclosure Regulation (SFDR) and EU Taxonomy is to create more transparency and support flows of capital going towards sustainable products. Unfortunately, endless consultations, regulatory updates, and new requirements have created some confusion. You just have to look at the 300+ investment funds that downgraded from Article 9 to Article 8 between October 2022 and January 2023, due to the coming into force of the SFDR's Level 2 regulation.

Speaking with our peers, it isn't uncommon for fund managers to receive differing (even contradictory) advice from lawyers and consultants. For smaller fund managers with limited resources, this can be a real and costly challenge to navigate, which also provides fuel to the anti-ESG movement who cite increasing reporting burden and compliance costs.

Despite all this criticism, we see the issues of the EU SFDR as teething problems, which we believe will stabilize. Other regulators, notably the UK FCA, seem to be learning from the mistakes of the EU SFDR in designing their own regulations (moving to a labeling rather than disclosure regime).

The focus in the US has been on emissions data from public companies, with polarized opinions on the SEC's 2024 Final Climate Disclosure Regulation. For some, this is too lax, as it excludes scope 3 emissions reporting. For others, it is too onerous, as it requires collection and reporting of data. At the time of publication of this report, the SEC issued a voluntary stay, meaning that the rules will not go into effect until a judicial review. We can expect more twists and turns in this disclosure regulation.

Despite the setback in the SEC Climate Disclosure Regulations, we are seeing some states (such as California and New York) enacting their own state regulations, which focus on scope 1-3 emissions rather than broader environmental and social indicators. Whilst we don't see the US having anything along the lines of the EU SFDR or the UK SDR in the foreseeable future, we do think that there is an interesting trend coming from corporate America, which is voluntarily measuring, tracking, and in some cases, reporting, environmental and social indicators.

HOW WE EXPECT ESG TO EVOLVE

CONTINUED

Where we think ESG will go:

1. Stakeholders are asking more questions

The term in the past has been overused, and stakeholders, including investors, are starting to ask more sophisticated questions. This is supported by increased regulation (in some countries), that is driving the need for better quality data. We expect to see less the blanket use of the term, and instead more qualitative information (e.g. context) and quantitative data to provide a more wholesome picture of how ESG is being used.

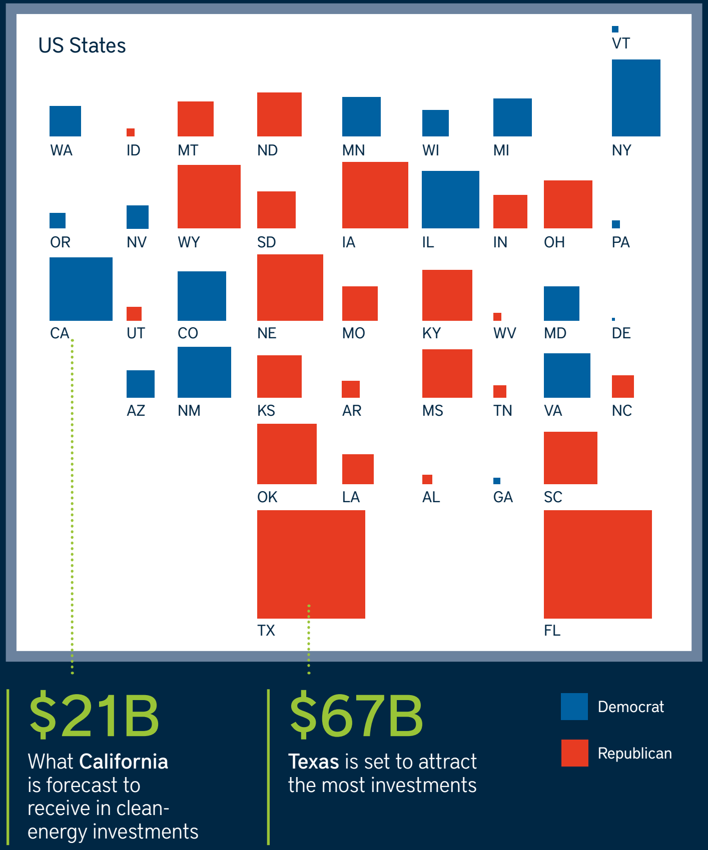
2. Investing in Sustainable Infrastructure is here to stay

Renewable energy installation and other sustainable infrastructure have seen significant growth in recent years, driven by a combination of technological advancements, declining costs, and policy support. According to the IEA, there was an additional 510 GW of global capacity in 2023, up by 50% from 2022. Whilst China was a key driver of this growth in renewable energy in 2023, we expect significant growth to come from the United States as a result of the Inflation Reduction Act (IRA). Wood Mackenzie predicts the United States' annual renewable energy capacity could triple in 10 years to 110 GW because of the IRA.

The IRA (signed in 2022) directs nearly $400 billion in federal funding to clean energy, through a mix of tax incentives, grants, and loan guarantees. Whilst the IRA is regarded as a Biden-administration policy, those who are benefiting the most economically are Republican states. According to White House figures, Republican states are expected to attract $337bn in investments for large solar, wind, and storage projects to 2030 from IRA, whereas states led by Democrats are expected to only get $183bn. This is in part due to the location of Republican states in the 'wind belt' (such as Iowa and South Dakota) and areas of high solar irradiation. According to some reports, Texas has now overtaken California in terms of solar generation.

Even if a change in the US government leads to the unlikely result of the IRA being revoked, the declining cost of renewables is such that they can now compete with traditional sources of energy. The IEA forecasts that by 2028, nearly all new solar and wind capacity will generate electricity at lower costs than coal and natural gas. This plays to the argument that energy transition can provide energy security and other positive externalities include the opportunity for economic rejuvenation and job creation.

Sustainable infrastructure offers a pathway to achieve multiple objectives, including reducing carbon emissions, enhancing resource efficiency, and improving energy security. Moreover, it can generate economic opportunities and create jobs.



Source: Bloomberg New Energy Finance, from the White House (2023)

CREDIT STRATEGY

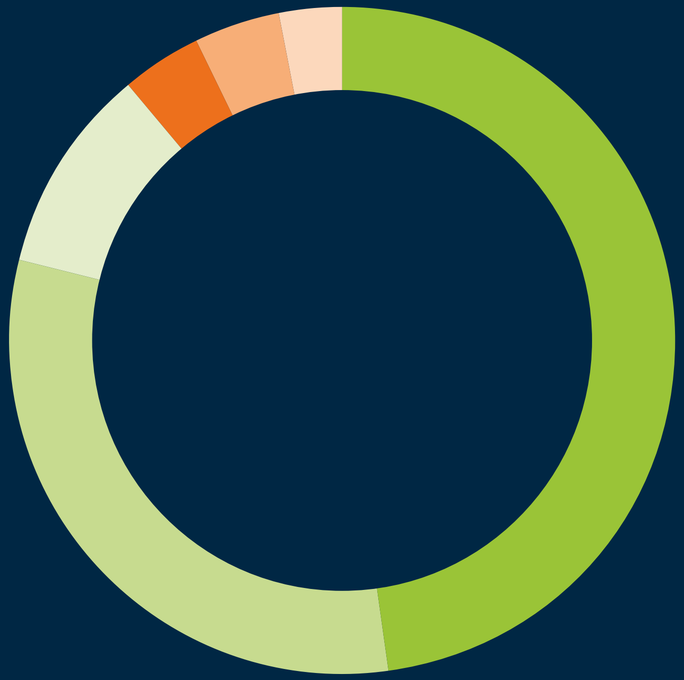
DSI credit manages a $2bn Separate Managed Account (SMA) on behalf of Aflac ($130 bn+ in assets) to invest in sustainable infrastructure.

Since the launch of our credit strategy in 2021, we have closed transactions covering assets in sectors such as wind, solar, batteries, hydro, transmission, biogas and regulation utilities across the U.S., Chile, Japan and Europe. With Aflac, we developed specific guidelines with respect to our SMA mandate.

At the end of 2023, 89% of our commitments were to renewables, with the remaining 11% in other sustainable infrastructure (for example, water, transmission, energy efficiency).

89% of our commitments were to renewables at the end of 2023

11% in other sustainable infrastructure



	% Commitment
Renewables	**89%**
Solar	48%
Wind	31%
Biogas	10%
Other infrastructure	**11%**
Transmission	4%
Water/waste	4%
Energy efficiency	3%

CREDIT STRATEGY

CONTINUED

Our Credit Sustainability Finance Framework defines:

- Use of Proceeds
- Evaluation and Selection of investments
- Management of Proceeds
- Reporting

This framework has been independently reviewed, with Moody's Investors Service providing a Second Party Opinion (SPO). The SPO confirmed that our framework is aligned with the four components of the principles. Furthermore, Moody's concluded that the framework demonstrates a significant contribution to sustainability.

CREDIT STRATEGY

CONTINUED

Use of Proceeds

The criteria for classification of credit activities that are eligible follow existing recognized international market standards, such as the LMA/LSTA Green Bond Principles and Social Bond Principles. Examples of eligible assets include renewable energy, transmission and distribution, energy efficiency, clean transportation, green buildings, sustainable water management, pollution prevention and control and digital infrastructure. In exceptional circumstances, gas-powered projects may be considered if they can demonstrate support towards wider decarbonization efforts.

Evaluation and Selection of investments

Our primary means of credit risk oversight is at the screening and due diligence stages, where we assess the eligibility of an asset against our framework and identify any material environmental and social risks associated with a transaction. This is completed by both our Head of Sustainability and credit team. Each Pricing Committee paper includes an overview of key issues.

Management of Proceeds

We manage commitments from institutional investor clients through Segregated Managed Accounts (SMAs) that are subject to specific portfolio allocations and strict investment guidelines. We require the borrower to make customary representations in the financing documents related to the use of proceeds.

Reporting

On an annual basis, we estimate the environmental or social indicators of our portfolio including for example, the estimated avoided greenhouse gas emissions from each transaction, and report this to our investors. Accounting for the overall capital structure of a transaction, we estimate that our financing has supported the avoided greenhouse gas emissions of 1.4m tCO_2e.

EQUITY STRATEGY

DSI's equity strategy is to invest in portfolio companies that develop, construct, and operate sustainable infrastructure projects.

Denham Capital is an early investor in renewables, having built the largest solar platform in Italy in 2009. Our global development and operational experience in sustainable infrastructure allows us to identify investment opportunities and offer practical guidance to our portfolio companies.

Our sustainability program integrates the management of environmental and social risks through key stages of the investment process, from screening, due diligence, investment agreements, active ownership, to exit.

The Head of Sustainability works closely with the deal team across each of these different stages of the investment lifecycle. As a team, we not only look to manage potential risks but importantly, to identify areas of value creation.

EQUITY STRATEGY

CONTINUED

Prior to investment

Screening

- Completion of investment screen for any red-flags and controversies
- Assessment of contribution towards a sustainability objective (either as defined by EU SFDR or the EU taxonomy)
- Estimation of the avoided greenhouse gas emissions of an investment over the lifecycle, net of the estimated lifecycle emissions

Due diligence

- Use of third-party consultants to carry out due diligence as appropriate
- Completion of site visits
- Review of compliance with national regulatory requirements, and in non-OECD counties, requirements of the IFC Performance Standards
- Physical climate change risks are assessed using the repath platform (see: Materiality Assessment)

Investment

- Shareholders' Agreement incorporate covenants with respect to management of environmental and social risks, alongside the establishment of a 100-day plan.
- 100-day plan includes implementation of policies such as Climate, Human Rights, and Diversity and Inclusion policies.

EQUITY STRATEGY

CONTINUED

Active ownership

Active ownership

- Each portfolio company has a ‘Sustainability Champion’ from the senior management team
- Regular interaction between DSI and management teams to identify opportunities for value creation (e.g., decarbonization pathways)
- Annual reporting of key performance indicators (KPIs)
- Site visits carried out by DSI team
- Board meetings cover material sustainability updates and KPIs
- Sustainability committees discuss work and progress

Exit

- All relevant environmental and social documentation is shared with potential buyers

MATERIALITY ASSESSMENT

Using materiality assessments for infrastructure, including SASB and GRESB, we have determined the potential material issues with respect to our investment strategy.

- Climate change
- Biodiversity
- Health and Safety
- Communities
- Human Rights and Supply chain
- Diversity, Equity and Inclusion
- Employee Engagement and Training
- Strong Governance Frameworks

MATERIALITY ASSESSMENT

CONTINUED

Climate Change

Our investment strategy has evolved to focus on sustainable infrastructure investments with a focus on energy transition investments (e.g. renewables, EV charging infrastructure, battery storage).

For all assets, we measure their scope 1 and 2 emissions, and, for the majority of assets, we report on scope 3 emissions. Since 2023, we have used the Persefoni platform for all new portfolio companies to measure and track scope 1-3 emissions, with the intention of developing net zero pathways.

We also report separately on the estimated avoided greenhouse gas emissions for all operational renewable energy projects, using the International Finance Institution (IFI) harmonized GHG accounting standards. Please see the Appendix. For new investments we calculate the avoided greenhouse gas emissions of an investment over the lifecycle, net of the asset's estimated lifecycle emissions.

Our legacy funds do include thermal assets in developing countries, where there is a real need for power. For example, in Fund VI, we have thermal assets in geographies in Ghana and Guinea. Our SIF I fund, has one operational combined cycle gas project in Manaus, Brazil, which has a power purchase agreement that ends in 2025. Using the Sustainable Development Scenario, we have mapped out the transition risk, specifically policy and legal, technological, market and reputational for these assets. Given their geographical location, we do not believe that these assets face the same type of transition risks compared to assets in OECD countries.

For the physical risks of climate change, we are working with the platform repath earth to understand the physical risks of assets over different climate scenarios (Representative Concentration Pathways "RCPs"), specifically RCP2.6, RCP4.5 and RCP 8.5. We are now working with repath to understand the financial impact of each vulnerability curve which we will then be able to use in our financial models. In the meantime, we are using the results from repath, to screen potential assets, and to discuss potential adaptive management plans with our portfolio companies.

MATERIALITY ASSESSMENT

CONTINUED

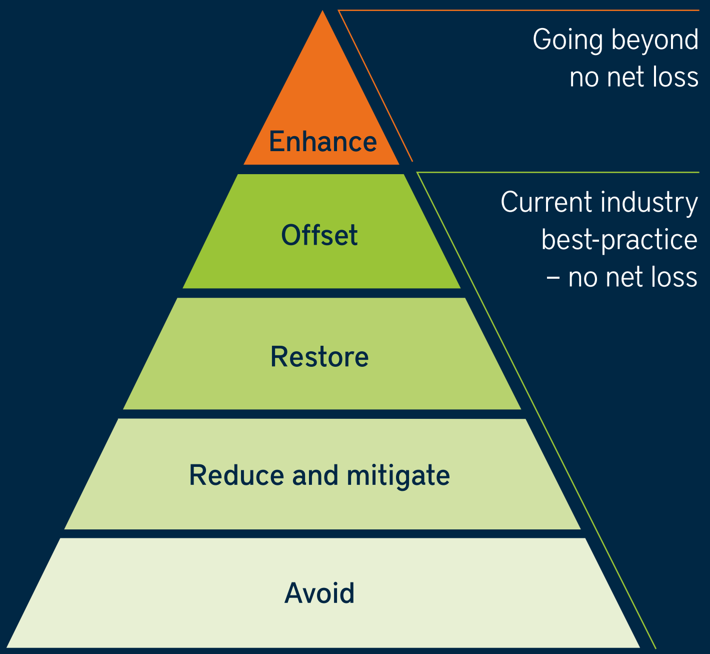
Biodiversity

For all assets in non-OECD countries, we require biodiversity assessments and action plans to follow the requirements of IFC Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources. The IFC Performance Standards represent international best practice for environmental and social management. This follows the mitigation hierarchy to avoid, minimize, restore and offset any impact to biodiversity. The standards also require no net loss to be achieved for a project which impacts natural habitat, and net biodiversity gain is required for projects which trigger critical habitat.

For all assets in OECD countries, we require compliance with national regulatory requirements, which typically follow the principles of the mitigation hierarchy.

From 2025 onwards, as discussed in our opening letter, we intend to apply the concept of net positive biodiversity impact in all our projects, not just in projects where there is critical habitat.

The mitigation hierarchy



MATERIALITY ASSESSMENT

CONTINUED

Health and safety

The transition to a low-carbon economy will generate substantial employment opportunities. However, to fully realise the benefits of this transition, ensuring safe working conditions needs to be a priority for the whole industry. Ensuring a secure working environment is paramount for both our organization and portfolio companies.

Our portfolio companies are required to establish comprehensive health and safety policies and programs. In addition to regulatory requirements, in non-OECD countries, our portfolio companies follow the Environmental, Health and Safety guidelines developed by the World Bank. Ensuring a secure working environment is paramount for both our organization and our portfolio companies.

Managing health and safety during the construction phase poses challenges due to the scale of the workforce involved. To address this, at each asset there is an on-site health and safety team tasked with supervising the implementation of our requirements by contractors. These teams conduct regular inspections to proactively identify and potential safety hazards and collaborate closely with contractors to ensure a safe working environment. Additionally, we expect continuous health and safety training to be provided.

In the unfortunate situation where an incident arises, we require a full investigation into the root cause of the incident as well as the implementation of a corrective action plan to minimize the risk of an incident re-occurring.

Health and safety will continue to be a priority for us, and we will continue working closely with our portfolio companies to improve standards.

MATERIALITY ASSESSMENT

CONTINUED

Communities

Regardless of geographies, engaging with communities is a core part of the work of our portfolio companies. The type of community engagement will depend on the needs of the local community.

For example, in 2023, Breitener (a Ceiba Energy asset in Brazil) worked with the Soka Amazon Institute to provide clean water and food to local riverine communities. The Breitener project is located in Manaus, northern Brazil and employs 103 people. Historically, local communities have been heavily dependent on the Amazon River for transport of goods, including food and drinking water. In 2023, the Amazonian River region was struck by one of the most severe droughts in history, because of low rainfall and consistently high temperatures in the year. This disrupted the primary source of food transportation and rendered water unfit for consumption.

Breitener, along with the Soka Amazon Institute, mobilized volunteers to deliver 120 baskets of basic non-perishable food, 200 gallons of drinking water, and 240 sachets bags for water purification. The purification kits allow local communities to treat river water for consumption.

Breitener has also been involved in other CSR initiatives with the local communities. For example, during the year, Breitener provided food donations for an Easter celebration attended by 500 children in the Mauazinho and Santa Etelvina communities in Manaus.

Other examples of CSR projects are as diverse as financing school fees for children in orphanages in Ghana, and volunteering in local homeless shelters in the UK. The type of projects our portfolio companies support are typically located near assets and are part of a broader engagement with the community.

OUR COMMUNITY STRATEGY

ONGOING ENGAGEMENT

INVESTING IN COMMUNITIES

LOCAL WORKFORCE

MATERIALITY ASSESSMENT

CONTINUED

Human Rights and Supply Chain

Human rights issues in sustainable infrastructure can include challenges around land tenure and land grab, the failure to respect indigenous peoples rights to 'free, prior and informed consent' and a poor health and safety culture. Our Responsible Investment Policy details the standards which we expect our portfolio companies to implement to manage these risks.

In past annual reports, we have discussed the challenges the solar sector is facing with respect to allegations of forced labour of the Uyghur people in the Xinjiang region in China. The US introduced the US Uyghur Forced Labour Prevention Act in June 2022, with the goal of preventing American entities from funding businesses using forced labour from ethnic minorities in the Xinjiang region. This regulation supports infrastructure investors in the US market in managing the risk of sourcing panels from the Xinjiang region.

In the case of projects outside the US, where such regulation does not currently exist, we work closely with our portfolio companies to try and manage this risk. For example, we work with our portfolio companies to implement a Human Rights Policy during the 100-day plan. We also support our portfolio companies in obtaining information and screening their supply chain as well as using relevant contractual covenants in agreements with suppliers.

At an industry level, we are actively collaborating with other investors to determine what actions we can take collectively. Outside the US, we follow industry initiatives such as the Solar Stewardship Initiative, that are working to create better supply-chain transparency. We recognize that there is still more work to be done to navigate this complex issue.

MATERIALITY ASSESSMENT

CONTINUED

Strong Governance Frameworks

All investment committee papers requesting an investment in a portfolio company or financing of an asset include a Sustainability Assessment which is completed by our Head of Sustainability.

In addition, we believe that key material sustainability topics should be discussed in Board meetings. Typical discussion items include health and safety indicators, compliance with environmental permitting and community engagement. DSI requires a board seat in each of its portfolio companies to ensure that our priorities are covered during these meetings. Ultimate responsibility for sustainability sits at the portfolio company board.

In addition to the regular board meetings, each portfolio company has a Sustainability Champion. Our Head of Sustainability and the portfolio company Sustainability Chamption hold regular calls and a quarterly / annual reporting framework is in place.

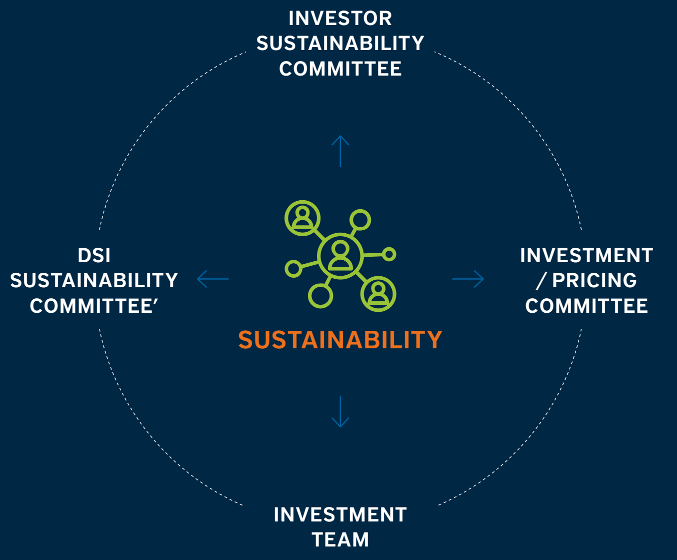
Finally, DSI has two sustainability committees:

- An investor sustainability committee for each of its funds

  The purpose of this committee is to keep investors abreast of sustainability updates on the portfolio as well as other initiatives.

- A DSI sustainability committee

  This includes DSI senior management, including DSI Partners and our Head of Sustainability, as well as James Stacey (Partner and Global Director of Climate Change and Low Carbon Transition at ERM). The role of this committee is to oversee and monitor initiatives as well as discuss regulatory and market updates.



DIVERSITY, EQUITY AND INCLUSION (DEI)

Denham Capital is committed to cultivating diversity across various dimensions, encompassing gender, race, ethnicity, sexual orientation, age, disability, nationality, and religion or belief.

We are dedicated to building a culture that mirrors the diversity of our investors, thereby advancing our collective objectives, while continuously elevating standards through inclusive practices. This commitment is upheld through providing diverse pathways for employees, implementing flexible workplace policies, and fostering a culture of respect in our work environment.

We encourage all our portfolio companies to follow the same approach towards DEI and work with our portfolio companies during the onboarding process to implement DEI policies. DSI has a 50% diversity mandate for all hiring agencies with whom we engage, ensuring a steady pipeline of diverse candidates.

In setting up the Boards of our most recent portfolio companies, EVC and Solops, our commitment to diversity resulted in a female board member on each, each bringing a wealth of experience helpful to those companies.

DIVERSITY, EQUITY AND INCLUSION (DEI)

CONTINUED

Employee Engagement and Training

We prioritize active engagement with our employees through a robust employee engagement initiative, featuring regular feedback sessions with senior management, goal-setting reviews, and periodic employee satisfaction surveys incorporating metrics such as the Net Promoter Score (NPS). In 2023 we initiated our Employee Satisfaction survey using the Net Promoter Score.

We provide annual sustainability training for our investment professionals, with the latest training provided in December 2023, where we delved into scope 1-3 emissions profiles of our portfolio companies and what it means to be net zero. Moreover, we provide ongoing professional training opportunities for employees, tailored to support their professional growth, including ad-hoc sessions throughout the year and annual training on KYC, anti-money laundering, and cybersecurity.

DIVERSITY, EQUITY AND INCLUSION (DEI)

CONTINUED

Q&A: A conversation between Scott Mackin, Anne Currell, and Anna-Marta Veloso

The following is an excerpt from an interview between Scott Mackin (Partner, Denham Capital), Anne Currell (Chairperson, EVC) and Ana-Marta Veloso (Board Member, Pontal Energy). The following highlights the career paths that Anne and Ana-Marta have taken and their roles, both in and outside of the boardroom. Further information on both EVC and Pontal Energy, and their sustainability commitments can be found in our case-studies section.

Scott Mackin: Perhaps we can start with Anne, and then Ana-Marta – could you tell the audience, the background to your careers and how you got to your roles today?

Anne Currell: I've had quite a varied career. I started my career in nursing, then had my children and went back to work. Twenty-five years ago, I set up a real estate company in north London and grew that business organically, with no debt. We exited the business 5 years ago with a sale to Savills, a global estate agent and top 250 FTSE company. I gained a lot of rounded business experience during those 25 years, that I like to think I'm bringing to EVC.

Ana-Marta: Thanks Scott, I have 32 years' experience, both in the energy and the financial sector. I started my career at BNDES, the Brazilian development bank, where I stayed for 12 years. In that role, I represented BNDES as a board member on some of their portfolio companies. I then moved to the private sector, joining Equatorial Energia, now one of the biggest utility companies in Brazil. Equatorial Energia started its operations in northeastern Brazil and now has operations throughout the whole country. I then spent 4 years in a senior role in Light, the utility company of the state of Rio de Janeiro. Light has transmission, distribution and generation assets. At Light, I worked with Roberto Barroso, who is now the CFO of Pontal Energy. I also worked at BTG Pactual, most recently being a board member of several of their portfolio companies, including Light and Equatorial. These different layers of experience mean that I have worked through a number of challenges and developed an extensive network of contacts.

Today, I'm the board member of several companies, including, Pontal Energy. However, I have been working with DSI since 2021, being a former board member of Rio Energy and was there through the Rio Energy sales process to Equinor.

DIVERSITY, EQUITY AND INCLUSION (DEI)

CONTINUED

Scott Mackin: You can understand why we wanted Anne and Anna-Marta to be on the boards of our portfolio companies, but Anne and Anna-Marta, why did you want to be board members of our portfolio companies?

Anne Currell: I remember you saying Scott, that with DSI being so hands-on, DSI can be a bit of a pain (those were your words not mine!). I would turn the question around and ask, why not? If you have some established boundaries and role remits, why would you not want to work with a private equity company who is passionate about the companies that they have invested in? There's so much expertise at DSI. Why would you not want to take a senior role with that level of expertise? As a result of this dynamic relationship, we have a much more empowered and collaborative board. We're always on, so instead of just turning up for each board, we can start board meetings from a much higher base. We don't page turn, we listen, we challenge, we engage, we debate and then we make informed decisions, and I think all around that's a better place to be for growth.

Ana-Marta: I decided to join Rio Energy's board because of the good reputation that DSI has in Brazil in its investments, and that led me to then join Pontal's board. Whilst the majority of energy in the country is produced from renewables, such as hydro, wind and solar, there's still a lot to be developed and it's a very exciting market. Today with Pontal, we are optimizing the operation of existing assets, we have one project under construction, and we are looking at a pipeline of greenfield development projects. I work very closely with the company's CEO to discuss any challenges that they may have during their daily activities. We have formal monthly meetings, but I'm always available to talk through challenges outside those monthly meetings. The Brazilian market has a lot of specificities, and that can be difficult to manage - I try and draw on my different experiences in the public and private sector to support the company in navigating these.

Scott Mackin: I'd like to differentiate your roles in the board meeting room and outside. Perhaps I can start with how you see your role in the board meetings themselves?

> “We don't page turn, we listen, we challenge, we engage, we debate and then we make informed decisions, and I think all around that's a better place to be for growth
>
> **Anne Currell**
> Chairperson, EVC

DIVERSITY, EQUITY AND INCLUSION (DEI)

CONTINUED

Ana-Marta: Despite the informal interaction with the management of the company, the board meetings are formal. We go through the agenda, and then discuss challenges and opportunities that the company is facing. DSI brings their experience to the table, I bring my experience, and we have a good discussion in a very open environment, where people can share views. I find that our board meetings are really productive, the presentation is objective, and we all have a common goal to see the company succeed.

Anne Currell: I see that my most important role in the board, as chair of the board is to make sure we have the right level of expertise in that room to deliver the business plan and mandate. We have a huge amount of material to go through and a lot of decisions to make. And it's important that we allocate the right amount of time to things, and get through the agenda. And to echo Ana-Marta, I think having an open, transparent boardroom is really important. You need a space where people can feel that they can raise issues, and we can challenge ourselves in a positive and assertive way. This all helps to make the right decisions.

Scott Mackin: And how do you see your role outside the boardroom? It's not just those hours together, you do a lot outside those boardrooms.

Ana-Marta: As I mentioned, I try to use my network both in the energy sector and with the banks and the regulator to build value to Pontal's assets. For example, I have lunches with the Pontal team and friends in the sector, both to build relationships and to explore potential opportunities. I try to have meetings with, for instance, people I used to work in the past, who work in project financing. We also have discussions with ANEEL, the energy regulator in Brazil. A lot of the challenges different stakeholders face in constructing wind power projects are similar, and we can learn from each other.

Anne Currell: One of the skills which I think I have brought is people and communication – this is really important. Outside the board room, I work very closely with the CEO and CFO, but also with the broader senior management team. From my previous property background, I bring sales and marketing expertise and I like to understand how the sales team is working to drive sales, and how the marketing is driving utilization.

I also don't want to be that mythical chairperson, that people think they can't talk to. I spend quite a bit of time in the company and recently attended one of their town halls, where I talked a little bit about my background. That particularly resonated with the women in the workforce, because I talked about raising my own family (I have 5 children), at the same time as growing a business. So many women came up to me afterwards and said how empowering they found that. I think those light touches outside the boardroom are important. I always remember a Maya Angelou quote that somebody said to me and I carry with me – "people may not always remember what you said, but they will remember how you made them feel.".

EVC
EV CHARGERS

Introduction

In 2023, DSI made an investment in UK-based electric vehicle charging company, EVC. EVC's core focus is on providing convenient, practical and reliable 'destination' charging options for its growing customer base. EVC funds and installs EV charge points, under long-term contractual lease agreements. These include hospitality, leisure and retail venues, workplaces and multi-dwelling residential units. Ensuring convenient and practical EV charging at their destination means customers, staff and residents no longer need to take time out of their journey to charge on the way.

Through boosting destination EV charging infrastructure, EVC aims to eliminate the so-called 'range anxiety' experienced by EV drivers concerned about finding reliable charge points. Projects range from individual chargers through to larger EV charging hubs and utilize charging points with a capacity between 22kW and 300kW. 100% of the energy that EVC procures is from renewable energy sources.

Growing a network of EV charging infrastructure is a crucial step towards achieving sustainable transportation and mitigating the impacts of climate change. One of the most significant barriers to EV adoption is range anxiety, the fear of running out of battery charge before reaching a charging station. By expanding charging infrastructure, this concern is alleviated, supporting the wider adoption of EV cars.

CASE STUDIES

CONTINUED

EVC EV CHARGERS

Sustainability Program

DSI worked with EVC to on-board the company onto the Persefoni platform to measure Scope 1-3 emissions in 2023. This provided a baseline year for greenhouse gas emissions for the company from which to set a target.

- Scope 1 emissions (direct emissions that EVC owns or controls directly)
- Scope 2 emissions (indirect emissions from purchased electricity)
- Scope 3 emissions (indirect emissions in the company's value chain)

Over 90% of EVC's emissions are Scope 3 emissions. We are now working with EVC in determining how to decouple their business growth from emissions growth. During our investment hold period, our investment in EVC is expected to support the avoided greenhouse gas emission of 270,000 tCO_2e.

Key stats as of end 2023:

101
employees

33%
female employees (increase of 24%)

20%
BAME populations (increase of 15%)

Sussex Wildlife Trust
Charity partnership signed

Increased staff EV adoption, with **17%** now driving EV cars

The company runs employee engagement surveys using the Net Promoter Score, increased from **55** to **79** from June to December 2023

Other initiatives at EVC include:

- **ISO 14001** certified, meaning that all suppliers are vetted to ensure that they have an environmental management policy in place to ensure compliance with all applicable laws and regulations. tracking and measuring the team's diversity
- **ISO 9001:** Quality management
- **ISO 27001:** Information security

PONTAL energy

Introduction

DSI formed Rio Energy in 2012, and it soon became a leading developer, owner and operator of renewable energy projects in Brazil. The company grew from a few individuals to a company of 155 people (53% female) with a passion to develop renewable energy projects in a sustainable way. The Rio Energy team included a head of sustainability, a health and safety team and community liaison officers. Rio Energy followed international environmental and social standards and had a strong commitment to support local communities by developing a number of programs around health and safety, education and youth programs, as well as supporting micro-enterprises. The company implemented comprehensive biodiversity action plans at its sites including establishing a tree nursery in northern Brazil, which at the time, was the first of its kind in the region. Rio Energy was one of the first Brazilian companies to issue green bonds.

Following the successful growth of Rio Energy, in 2023, DSI completed the partial sale of Rio Energy and 800MW of projects either in operation or pre-construction (as well as an additional 1.2 GW development pipeline) to Equinor, the well-known Norwegian multinational company.

Following the sale of Rio Energy, in 2023, DSI launched a new Brazilian renewables player around the remaining assets, 'Pontal Energy'. Today, Pontal Energy is managing around 1 GW of renewable capacity, including three operational onshore wind projects, and is overseeing a strong development pipeline.

CASE STUDIES

CONTINUED

PONTAL energy

Sustainability Program

In the same way that we worked closely with the Rio Energy management team, today we work with Pontal Energy to support them in building a strong and reputable company. This includes appointing a sustainability lead to manage environmental and social programs at each project. One of the key environmental programs involves supporting biodiversity. Pontal Energy's video provides further information on their plant nursery and local stakeholder involvement.

Pontal Energy has also continued the work which Rio Energy initiated with various community programs. This includes supporting the work of "Association of Marisqueiras" (Association of Fisherman) in Itarema, Brazil. This cooperative of approximately 37 people, predominantly women, prepare, sell and distribute seafood. In 2023, the Association provided training courses and looked at ways of increasing revenue to the association by sharing infrastructure with local fish companies.

Key stats

OVER
400MW
of operation wind energy assets

NEARLY
200MW
of under construction wind energy assets

Strong development pipeline of
2.5+ GW

INDUSTRY PARTICIPATION

Principles for Responsible Investment (PRI)

Denham Capital has been a signatory to the United Nations supported Principles for Responsible Investment since 2022. In 2023, we completed our first voluntary reporting cycle, obtaining five stars for the Direct-Infrastructure module.

GRESB

DSI has been a GRESB member since 2018 and is proud to participate in the GRESB Infrastructure Fund Assessment. As our assets historically have been mostly in development or construction, we have participated specifically in the management score of the GRESB assessment. In 2023, we scored 29/30, above the GRESB average of 28/30 and in line with the Benchmark Average. We encourage our assets to report against the GRESB asset assessment.

Our Head of Sustainability is a member of GRESB's Expert Resources Group and has provided insights into the new reporting tool within GRESB for assets under development. Please visit GRESB for access to the webinar. In addition, our Head of Sustainability participates in the Infrastructure Debt Industry Working Group.

Operating Principles for Impact Management (OPIM)

SIF I is a signatory to the Operating Principles for Impact Management (OPIM) and we prepare an annual disclosure statement to report on how our impact management systems align with the Impact Principles. This annual disclosure statement is available on our website.

Initiative Climate International (iCI)

DSI became a signatory to Initiative Climat International (iCI) in 2022. iCI is a private equity practitioner-led group seeking to better understand and manage the risks associated with climate change. DSI has participated in a working group which seeks to better understand and identify the physical risks of climate change with respect to infrastructure.

Coalition for Climate Resilient Investment (CCRI)

The CCRI Legacy Programme is a public-private coalition to better understand and manage physical climate risks. DSI is a legacy member of CCRI, which is now managed by the Global Infrastructure Hub.

ESG Data Convergence Initiative (EDCI)

EDCI is an industry-led solution, aiming to standardize metrics and benchmarks. EDCI has recently set up a working group for infrastructure investors, in which our Head of Sustainability participates.

SUSTAINABILITY KPIS

	2023		2022	
	Fund VI	SIF I	Fund VI	SIF I
Power generation (GWh)	1,645	1,600	3,400	1,800
Avoided GHG emissions (tCO2)[1]	355,000	115,000	897,000	205,000
Estimated number of people powered by clean energy	570,000	184,000	742,000	292,000
Scope 1-3 emissions				
Scope 1+2[2]	370,000	560,000	287,000	509,000
Scope 3[3]	2,200	1,390	9,400	8,600
Biodiversity Action Plans	100%	100%	100%	100%
Employment				
Board gender diversity	25%	25%	13%	7%
Project employment (contractors)	500	1,300	1,800	1,000
Of which female	*12%*	*12%*	*22%*	*8%*
Health and safety				
Fatalities[4]	0	2	0	0
Lost time injuries	1	5	1	4
H&S management plans	100%	100%	100%	100%

1 Power generation and avoided GHG emissions decreased in 2023 compared to 2022 due to the exit of portfolio companies (including Nexif Energy).
2 Over 95% of Scope 1+2 emissions comes from 4 thermal power generation projects. Going forward, we will only invest in gas-generation projects in exceptional circumstances.
3 This covers Scope 3 emissions that are being calculated by portfolio companies. Currently not all portfolio companies are calculating Scope 3 emissions.
4 Sadly, in 2023, two fatalities occurred at the contractor/ sub-contractor level during the construction of the Singrobo hydro-power project in Cote d'Ivoire. Investigations into the root causes of these two fatalities have been conducted and corrective actions implemented.

All figures are provided pro-rata to fund ownership.

SUSTAINABILITY KPIS

CONTINUED

Contribution to the UN Sustainable Development Goals

Core SDGs to our investment strategy

7 AFFORDABLE AND CLEAN ENERGY

Target 7.2
Increase substantially the share of renewable energy in the global energy mix.

DSI has developed over 5GW of renewable energy. Our credit platform has provided project finance to 29 GW of renewables.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Target 9.4
Upgrade infrastructure to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies.

As part of the development process, our projects often have to build transmission lines or upgrade other infrastructure to be able to export clean energy.

Ancillary SDGs to our investment strategy

1 NO POVERTY

Target 1.1
Eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day.

For each of the investments where DSI provides equity, community related projects are part of our sustainability program. See Communities.

6 CLEAN WATER AND SANITATION

Target 6.1
Achieve universal and equitable access to safe and affordable drinking water for all.

Community related projects include projects related to the provision of clean water. See Communities.

8 DECENT WORK AND ECONOMIC GROWTH

Target 8.8
Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

Projects in OECD countries are required to follow national legislation where usually labor standards are stringent. For projects in non-OECD countries, projects need to comply with the IFC Performance Standards. See Health and safety.

11 SUSTAINABLE CITIES AND COMMUNITIES

Target 11.2
Provide access to safe, affordable, accessible and sustainable transport systems for all.

Our investment in EVC is an example of an investment in the clean transportation sector. See EVC.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Target 12.4
Achieve the environmentally sound management of chemicals and all wastes throughout their lifecycle, in accordance with agreed international frameworks.

We aim to achieve this by following national regulations, and, additionally in non-OECD countries, the IFC Performance Standards.

13 CLIMATE ACTION

Target 13.1
Strength resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

By using the repath. earth tool, we aim to assess and minimize the physical risks of climate change. See Climate Change.

15 LIFE ON LAND

Target 15.5
Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity, and protect and prevent the extinction of threatened species. We aim to achieve this by following national regulations, and, additionally in non-OECD countries, the IFC Performance Standards. In addition, from 2025 onwards, we intend to apply the concept of net positive biodiversity impact in all our projects. See Biodiversity.

APPENDIX

Sustainability terms

Given the growth of different regulations, frameworks, and terms, we thought it would be useful to provide a summary of the different initiatives which can affect investors.

REGULATIONS

SFDR and the EU Taxonomy

The EU has introduced 3 main regulations in the last few years, the Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, and Corporate Sustainability Reporting Directive (CSRD). These three regulations are closely interrelated and part of a broader push by the EU in its commitment to reach net zero emissions by 2050.

The primary purpose of SFDR is to channel more capital into sustainable investments by improving transparency and curbing greenwashing. Those under scope include financial market participants that have funds domiciled in the EU. Funds that are not domiciled in the EU, but with European investors may find themselves needing to comply with SFDR disclosure requirements. There are two levels to SFDR, level 1 disclosures are entity level disclosures which require information on policies and the identification of principal adverse sustainability impacts, whilst level 2 disclosures are product-related disclosures:

- Article 6 products: These are products that do not promote environmental or social characteristics. They are not required to make additional sustainability-related disclosures beyond the general requirements of the SFDR.
- Article 8 products: These are products that promote environmental or social characteristics.
- Article 9 products: These are products with sustainable investment as their objective. For example, an objective may be 'climate change mitigation'. They are subject to the most stringent disclosure requirements under the SFDR.

The EU Taxonomy provides a list of economic activities that can be considered sustainable ("EU taxonomy eligible"). To be "taxonomy aligned", an activity must contribute to at least one of six environmental objectives listed in the taxonomy and do no significant harm to any of the other 5 objectives, whilst ensuring that minimum social safeguards are in place. Under SFDR, investments can also be considered sustainable under Article 2(17) if they meet an environmental (or social) objective and again ensure minimum social safeguards (without necessarily using the EU taxonomy).

DSI's SIF I is under scope of the SFDR, with entity level website disclosures on our website. We also provide a product-level disclosures statement as part of the non-financial statements in our annual financial report to investors. In addition, we provide a "Principal Adverse Impact" (PAI) statement to our investors on an annual basis.

The CSRD applies specifically to companies and helps to provide information to investors in fulfilling their reporting obligations. The CSRD does not currently apply to any of our portfolio companies.

SEC – Climate Rules

On March 6, 2024, the SEC adopted climate rules, "The Enhancement and Standardization of Climate-Related Disclosures for Investors" requiring registrants and foreign private issuers registered with the SEC to disclose climate-related information in their registration statements and periodic reports. Under the ruling, public companies of a certain size would need to disclose scope 1 and 2 emissions. The absence of scope 3 emissions has disappointed some environmental groups. At the time of the publication of this report, following significant opposition, the SEC elected to stay its own rule pending judicial review.

Denham is not under scope of the SEC climate rules, as this would apply to certain public companies only.

PRINCIPLES AND STANDARDS

IFC Performance Standards/ Equator Principles

The IFC Performance Standards and Equator Principles are both frameworks used to assess and manage environmental and social risks in developing projects. The IFC Performance Standards were developed by the International Finance Corporation (IFC), of the World Bank Group and were intended for application in non-OECD countries, where environmental or social regulation was lacking or poorly implemented. The Equator Principles solely focus on project finance but use the IFC Performance Standards as benchmark standards.

In projects in non-OECD countries, DSI requires the application of the Performance Standards or Equator Principles.

Green and Social Loan Principles

The Green and Social Loan Principles are guidelines and criteria used by financing institutions to assess and categorize loans based on environmental and social impacts. Several associations promote the green and social loan principles to ensure standardization and credibility in sustainable finance practices, including the Loan Market Association (LMA), which established the LMA Green Loan Principles and the Loan Syndications and Tradition Association (LSTA) which established the LSTA Green Loan and Social Loan Principles.

APPENDIX

CONTINUED

DSI's Sustainable Finance Framework (for credit transactions) uses the LMA/LSTA Green Loan Principles (2023) and Social Loan Principles (2023).

International Sustainability Standards Board (ISSB)

In January 2024, the ISSB finalized new standards that for the first time create a single global baseline for sustainable reporting. ISSB Standards have been endorsed for use by securities regulators worldwide. The ISSB has finalized two new global standards – General Requirements for Disclosures of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS SB2). The framework builds on the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) which have now evolved into the ISSB Standards. IFRS 2 – Climate-related Disclosures asks organizations to report on how they're managing the financial risks posed by climate change (such as physical and transition risks). It will be for individual jurisdictions to decide whether and when to adopt.

DSI supports the convergence of multiple standards. DSI's Climate Policy has been based on TCFD recommendations, and we believe we have building blocks for any future mandatory reporting.

GOALS AND TARGETS

UN Sustainable Development Goals (UN SDGs)

The Sustainable Development Goals are a set of 17 interconnected global goals adopted by the UN in 2015 as part of the 2030 Agenda for Sustainable Development. Each goal has specific targets to be achieved by 2030.

DSI uses the Sustainable Development Goals (SDGs) as one way of framing the impact of our funds. Infrastructure investment plays a crucial role in advancing many of these goals. We define 'core' SDGs as those which our investment strategy is directly targeting, and ancillary goals as those where our contribution is as a result of the implementation of our Responsible Investment Policy.

Net Zero

Net zero refers to the state where the amount of greenhouse gas emissions (GHG) emitted into the atmosphere is balanced by the amount removed or offset, resulting in no net increase in GHG emissions. In order to keep global warming to less than 1.5 degrees Celsius above pre-industrial levels, it is generally agreed that we must reach global net zero emissions by 2050, and ideally earlier. To reach net zero, an understanding of scope 1, scope 2 and scope 3 emissions is required:

Scope 1 emissions: direct greenhouse emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers)

Scope 2 emissions: indirect greenhouse gas emissions associated with the purchase of electricity, steam, heat or cooling.

Scope 3 emissions: indirect greenhouse gas emissions from an organization's supply chain. Typically, scope 3 emissions account for more than 80% of a company's carbon footprint. Scope 3 emissions are the hardest to calculate, track and reduce.

There are different frameworks to help investors reach net zero, such as the Net Zero Investment Framework, Net Zero Aset Owner Alliance, the Net Zero Asset Managers initiative. These frameworks have different approaches to targeting scope 3 emissions, for example, NZAM only requires managers to account for Scope 3 emissions to 'the extent possible'.

DSI is currently reviewing net zero goal frameworks.

Science-Based Targets initiative (SBTi)

The definition of net zero, as well as the path to get there, has been interpreted in different ways which has fueled confusion and accusations of green washing. To address these concerns, the Science-based targets initiative (SBTi) developed the Net-Zero Standard. This Standard provides a robust and science-based framework for corporate net-zero targets. SBTi has long been considered the global gold standards-setting body for corporate climate disclosures. Until now, the SBTi has ruled out the use of carbon offsets, instead emphasizing the importance of deep greenhouse gas emissions cuts. However, at the time of the publication of this report, the SBTI Board of Trustees released a statement suggesting that SBTi has decided to allow the use of carbon credits towards companies' scope 3 reduction targets.

DSI is working with its portfolio companies in setting net zero transition pathways. Further work needs to be done, until we decide whether to encourage our companies to become SBTi companies.

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