

For professional clients only

# ESG Statement

Infrastructure Investments

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## Context

The Infrastructure Investment team objective is to achieve attractive, sustainable, risk-adjusted returns over the long term for our investors. To deliver on that objective, we strive to build portfolios of mature, unlisted infrastructure investments that generate risk adjusted stable and predictable returns.

As a signatory to the Principles for Responsible Investment (PRI) and in accordance with best practice, First Sentier Investors (FSI) is committed to investing responsibly. As one of the longest established infrastructure investment managers with over 25 years of investment history, FSI considers itself a leader in incorporating Environmental, Social and Governance (ESG) factors into its investment and asset management process.

Whilst ESG considerations apply to all businesses, we think they are particularly relevant to infrastructure businesses as they provide essential services that need to be managed with a long-term view. As infrastructure businesses often operate as monopolies or quasi-monopolies, ESG is an essential component of their 'social licence to operate' (i.e. the reputation of the company to its customers, the public and other stakeholders, from whom ongoing support and societal acceptance is maintained) and paramount to long-term sustainability. As such, Responsible Investment and best-in-class ESG practices have been core to our investment philosophy since the launch of our funds.

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## Our Beliefs

Fundamentally, we believe that excellent ESG management is a pre-requisite for business. In our view, outstanding customer service, best-in-class health and safety culture, cutting-edge innovation, high employee engagement and efficient use of resources is good for business, its stakeholders and the environment. It reduces risk and improves and sustains long-term investment returns. This is the essence of our approach to ESG.

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## Approach pre-acquisition

We consider ESG in all stages of the investment process starting as early as the opportunity screening stage. Using a 'traffic light / RAG status' assessment system we determine the materiality of potential risks/issues and their reputational, financial, operational, legal or regulatory impact. Our due diligence process may include the appointment of external expert advisors on specific ESG issues if required. In all subsequent stages we deepen our understanding, analysis and planning.

The investment selection process does not preclude investments in businesses that currently have sub-optimal ESG performance as this may present an opportunity to create sustainable value. ESG risks or practices, however, can be showstoppers. For example, a poor safety culture or insufficient consideration given to climate change impacts could mean that an opportunity would be screened out at any stage of the due diligence process.

## Approach post-acquisition

There are three distinctive aspects to our ESG approach post-acquisition.

### **Systematic implementation of minimum standards across all portfolio companies**

Although our assets operate in different industries and jurisdictions and are of different size or at various stages of development, as an owner we believe that a number of minimum ESG standards are applicable across all our assets.

We have identified the following five minimum standards that we require to be implemented in all our portfolio businesses:

1. Improving corporate governance standards through independent and diverse board representation, implementing risk management and risk registers, leading on all relevant ISO standards or certifications and carrying out regular employee engagement surveys and customer satisfaction surveys
2. Improving health and safety through: sharing best practice, defining and implementing standardised metrics, setting zero accident targets and incorporating Health and Safety performance and culture as part of senior management team incentives where appropriate.
3. Reducing emissions and improving other relevant environmental standards
4. Improving diversity, equality and representation throughout the organisation
5. Encouraging apprenticeship and continuous development.

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In addition to implementing and tracking these minimum standards, we encourage each asset to set its own targets, action plans, and report on progress with a focus on continuous improvement. Sharing best practice between portfolio companies and during asset management planning reviews is an integral part of the continued delivery of ESG excellence.

## **Action and result orientation**

We seek to ensure our portfolio companies comply with all applicable laws and have all the required policies and certifications in place. We also encourage, where useful, the implementation of best-in-class and internationally recognised frameworks such as the United Nations Sustainable Development Goals (SDGs) and the Greenhouse Gas Protocol (GHG Protocol).

We believe, however, that having policies and frameworks in place is not enough, as all too often they are not adhered to. Instead of overloading portfolio companies with policies, we focus on ensuring that key policies are understood by all, adhered to and that the right behaviours are encouraged throughout the business. We aim for our portfolio companies not to 'tick the box' but to have the appropriate ESG mind-set in order to deliver results.

## **Top-down and bottom-up**

ESG requires strong leadership from the board and the executive management team, but ultimately can only be successful if it forms an integral part of the company culture. As a consequence, even though we work a lot on ESG matters with the board and management teams we do our utmost for ESG to be 'owned' by the front line. It is only when embedded in the everyday working life and behaviour of all employees that ESG makes a sustainable difference.

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