



# Sequoia Infrastructure Debt Fund (“SIDF” or “Fund”):

## Sustainability Related Disclosures

10<sup>th</sup> March 2021

### 1. Summary

The Fund promotes environmental and social characteristics, but it does not have sustainable investment as its objective sustainable investment.

The environmental characteristics promoted by the Fund are focussed around the Fund’s three ESG investment themes, which are set out in full in the Fund’s ESG Policy and explained in the “investment strategy” section below:

- renewable energy
- enabling the transition to a lower carbon world
- infrastructure with societal benefits

The investment strategy used to attain the environmental and social characteristics promoted by the Fund is detailed in the Fund’s ESG Policy. ESG principles are applied in three ways to the Fund’s portfolio, as further explained in the “Investment Strategy” section below:

- negative screening
- thematic investing (positive screening)
- ESG scoring

The Fund uses an ESG scoring methodology, as further explained below, which is used to measure particular sustainability metrics for each investment, including:

- environment indicators and modifiers such as: exposure to particular sectors and sub-sectors such as solar, wind, hydro, energy transition assets, biofuels, aircrafts, nuclear energy generation, air pollution and water pollution;
- social indicators such as: job creation in socially deprived areas and engagement with local communities; and
- governance indicators such as: independent board members, effective diversity policies, independent oversight.

These indicators are used to score investments and are monitored with a view to improving the overall ESG score of the Fund.

The negative screening element of the strategy is binding on the Fund. In addition, ESG scores must be taken into account in the investment process. When evaluating potential investments, ceteris paribus, the Investment Adviser will prioritise transactions with higher ESG scores, and when considering the potential disposal of investments, the Investment Adviser will prioritise transactions with lower ESG scores.

The Fund’s approach to ESG is carried out on a continuous basis from pre-acquisition stage, through engagement with borrowers to assess their continued performance and, where relevant including

particular ESG KPI's in the loan documentation requiring borrowers to meet particular ESG targets and to report on these on an ongoing basis.

Additional information on how the Investment Adviser integrates sustainability into its investment process to ensure that it is applied on a continuous basis, and in particular its approach to due diligence and ongoing monitoring of investments, can be found at [www.sequoiaidf.com](http://www.sequoiaidf.com).

## **2. No sustainable investment objective**

The Fund promotes environmental and social characteristics, but it does not have sustainable investment as its objective sustainable investment. Detailed disclosure on the Fund's sustainability credentials are set out further below.

## **3. Environmental or social characteristics of the financial product**

The environmental characteristics promoted by the Fund are focussed around the Fund's three ESG investment themes, which are set out in full in the Fund's ESG Policy and explained in the "investment strategy" section below:

- renewable energy
- enabling the transition to a lower carbon world
- infrastructure with societal benefits

There are significant number of sustainability indicators which may be used in respect of any particular investment and full details of the measures the Investment Adviser may use are set out in the Fund's ESG policy. In particular, the Fund uses an ESG scorecard (the **ESG Scorecard**) which is used to measure particular sustainability metrics for each investment, including:

- environment indicators and modifiers such as: exposure to particular sectors and sub-sectors such as solar, wind, hydro, energy transition assets, biofuels, aircrafts, nuclear energy generation, air pollution and water pollution;
- social indicators such as: job creation in socially deprived areas and engagement with local communities; and
- governance indicators such as: independent board members, effective diversity policies, independent oversight.

These indicators are used to score investments and are monitored with a view to improving the overall ESG score of the Fund.

## **4. Investment Strategy**

The full investment strategy of the Fund is set out in the Fund's prospectus.

The investment strategy used to attain the environmental and social characteristics promoted by the Fund is detailed in the Fund's ESG Policy. ESG principles are applied in three ways to the Fund's portfolio:

- Negative screening  
The following subsectors or asset types are excluded:
  - Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities and facilities involved in tar sands. Note that

midstream assets such as pipelines are not necessarily excluded but are subject to ESG scoring as set out below.

- Infrastructure related to mining thermal coal.
- Electricity generation from coal.
- Military infrastructure, such as military housing.
- Alcohol, gambling and pornography.

- Thematic investing (positive screening)

Currently, the Fund has three ESG investment themes. Positive screening will be employed to increase the Fund's exposure to these investment themes, subject to existing concentration limits:

- Renewable energy, such as solar, wind and geothermal generation, and directly-related businesses including companies that supply renewable energy.
- Enabling the transition to a lower carbon world, such as grid stabilization, electric vehicles, traffic congestion reduction and the substitution of coal by gas.
- Infrastructure with social benefits, such as healthcare, clean water and education.

- ESG scoring

An ESG scoring framework helps the Investment Adviser to allocate capital between projects and to measure its progress over time in a quantitative way. The Investment Adviser's proprietary ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the "direction of travel". For example, a business that currently contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution.

The methodology blends the "E", "S" and "G" components without allowing strength in one area to offset entirely weakness in another. For example, a polluting Fund will always get a poor score, even if it has excellent social and governance policies. Moreover, the Fund's policy is not to lend to companies with a very low E score, of less than one, regardless of the overall ESG score.

The negative screening element of the strategy is binding on the Fund. In addition, ESG scores must be taken into account in the investment process. When evaluating potential investments, ceteris paribus, the Investment Adviser will prioritise transactions with higher ESG scores, and when considering the potential disposal of investments, the Investment Adviser will prioritise transactions with lower ESG scores. By aiming to invest in higher-scoring opportunities, and aiming to dispose lower-scoring opportunities, the aim of the ESG Policy is to improve the ESG score of the Fund's loan book over time.

The Fund is not, however, bound to invest only in accordance with the positive screening criteria and, subject to the application of the negative screens and the Scorecard, may invest more widely than the types of asset listed in the positive screening criteria.

The Fund's approach to ESG is carried out on a continuous basis from pre-acquisition stage, through engagement with borrowers to assess their continued performance and, where relevant including particular ESG KPI's in the loan documentation requiring borrowers to meet particular ESG targets and to report on these on an ongoing basis. As part of the investment process, and in line with the ESG Scorecard, the Investment Adviser puts an emphasis on the demonstration of strong governance during the due diligence process.

Additional information on how the Investment Adviser integrates sustainability into its investment process to ensure that it is applied on a continuous basis, and in particular its approach to due diligence and ongoing monitoring of investments, can be found at [www.sequoiaidf.com](http://www.sequoiaidf.com)

## **5. Proportion of investments**

As explained in the investment policy of the Fund, the Fund invests in a diversified portfolio of senior economic infrastructure debt investments. The detailed asset allocation limits to which the Fund adheres are set out in its investment objective and policy in the Fund's prospectus.

As a result of its approach to thematic investing, it is likely that the Fund will provide capital to sustainable investments, as that term is defined in SFDR. However, the Fund is not currently committed or bound to do so and there is no minimum proportion of sustainable investments that will or may be held by the Fund. However, the positive screening will be employed to increase the Fund's exposure to these investment themes over time, subject to existing concentration limits. As such, the Fund's approach to committing to investing in sustainable investments may change over time and this disclosure will be updated accordingly.

In any event, the Fund broadly takes into consideration the principle of "do no significant harm" through its approach to negative screening and the ESG Scorecard. As noted above, the methodology blends the "E", "S" and "G" components without allowing strength in one area to offset entirely weakness in another. For example, a polluting Fund will always get a poor score, even if it has excellent social and governance policies. Moreover, the Fund's policy is not to lend to companies with a very low E score, of less than one, regardless of the overall ESG score.

To the extent that the Fund is not fully invested in senior and subordinated economic infrastructure debt investments, it may hold cash with well rated institutions for liquidity purposes and not for the attainment of the environmental characteristics of the Fund.

In addition, the Fund does not intend to use hedging or derivatives for investment purposes but, where required and appropriate, it may engage in currency hedging with a view to protecting the level of dividends and other distributions to be paid by the Fund.

## **6. Monitoring of environmental or social characteristics**

Where appropriate, loan terms will include an obligation on the borrower to report suitable ESG metrics. These could include:

- Carbon emissions (broken down by scope 1, 2 and 3), carbon footprint and weighted average carbon intensity.
- Energy performance including the total energy consumption from non-renewable sources, energy consumption intensity.
- Water emissions.
- Hazardous waste ratio and non-recycled waste ratio.
- Gender pay gap, board gender diversity, ethnic diversity, excessive CEO pay ratio.

Borrowers will also be asked to complete annual post-investment ESG questionnaires. These will cover quantifiable ESG metrics/KPIs when appropriate, such as CO2 emissions, Health and Safety records, CQC ratings, etc, as well as confirmation of the borrower's overall ESG policies and procedures.

ESG performance and credentials will be monitored regularly for each investment in the semi-annual monitoring process. If a borrower's ESG scores deteriorate, Sequoia will contact the management of the borrower to determine a strategy to improve performance. If the borrower is unwilling or unable to do this, the Investment Adviser may look to dispose of the loan.

## **7. Methodologies**

The methodologies to measure the attainment of the social or environmental characteristics promoted by the Fund are also described in the "monitoring of environmental or social characteristics" and "due diligence" sections of this disclosure.

The main methodology used by the Fund to measure the attainment of the social or environmental characteristics is its ESG Scorecard.

In addition, and where appropriate, loan terms may include covenants or repeated representations to ensure that the borrower complies with its stated ESG objectives and to encourage it to improve its standards over time. These could include:

- Obligations to comply with environmental standards and regulations.
- Obligations to adopt net zero policies.
- Obligations to reduce pollution over and above statutory minimums, including light and noise pollution.
- Obligations to adopt or continue social policies such as living wages, non-discrimination, employee diversification and minority board representation.

Obligations to adopt or continue good governance policies such as independent directors, whistleblowing, complaints procedures and internal audit functions.

The Investment Adviser can also consider adopting financial terms in a loan where (for example) the interest rate might fluctuate depending upon the borrower's performance on an environmental metric such as carbon emissions.

## **8. Data sources and processing**

The Investment Adviser uses only internal data, collated through its detailed due diligence exercise and ongoing monitoring of all investments.

## **9. Limitations to methodologies and data**

Available ESG and sustainability data has its limitations, particularly in the asset classes in which the Fund invests. The Investment Adviser regularly reviews its metrics and the application of its ESG Scorecard, and continuously seeks to improve transparency, disclosure and data provision in relation to the Fund, using where relevant international benchmarking standards.

## **10. Due diligence**

The Investment Adviser evaluates all project risks it believes are material to making an investment decision and will assess how those risks are mitigated. Where appropriate, it will complement its analysis through the use of professional third party advisers, including technical consultants, financial and legal advisers and valuation and insurance experts. These advisers will be engaged to conduct due

diligence that is intended to provide an additional and independent review of key aspects and risks of a project, providing comfort as to the level of risk mitigation and the project's ongoing performance. In addition, the Investment Adviser will, where appropriate, conduct site visits and meetings with the management of the Borrower and/or its advisers.

The particular sustainability due diligence is carried out by way of the use of the ESG Scorecard, which must be taken into account during the investment process. In addition, as part of its investment analysis, the Investment Adviser will, where possible, assess the consequences for its investments of three climate change scenarios: a 1.5-2°C case where the physical risks of climate change are modest but the transitional risks (e.g. stranded assets) are high; a 2-3°C case where emissions stabilize at current levels; and the “business as usual” case where temperatures rise at 3-6°C resulting in increased physical risks (e.g. rising sea levels).

## **11. Engagement policies**

The Fund takes a pro-active approach to managing its loan book, and engages with borrowers (in relation to ESG topics) in a number of important ways, as set out in more detail in the ESG Policy. In summary, these include:

- Incorporating environmental considerations into loan terms, such as covenants to comply with environmental regulations, manage pollution, reduce carbon emissions and adopt water and waste water management strategies.
- Reporting requirements on environmental metrics such as carbon footprint, energy intensity and recycling ratios.
- Exercising voting rights in loan agreements responsibly and taking account of the environmental consequences of voting.
- Engaging with the management of its borrowers to encourage them to adopt policies that would be beneficial for the environment and reduce their impact on climate change.
- Considering disposing of investments where adequate progress towards climate goals is not being made.

## **12. Designated reference benchmark**

Currently (as of March 2021), no index is designated as a benchmark for determining the sustainability of the Fund.