

ESG is Vital in Infrastructure Investing



Environmental, Social and Governance (“ESG”)

Responsible investment aims to incorporate environmental, social and governance factors (ESG) into investment decisions, to better manage risk and generate more sustainable, long-term returns

Environmental criteria looks at how a company performs as a steward of the natural environment, including energy usage, pollution, habitat, water use and waste.

Social criteria examines how a company manages relationships with its employees, suppliers, customers, the communities where it operates and other stakeholders with which it interacts.

Governance deals with a company’s leadership, executive pay, audits and internal controls, and shareholder rights.



Environmental criteria look at a company’s energy use, waste, pollution, natural resource conservation and animal treatment. They also evaluate which environmental risks might affect a company’s income and how the company is managing those risks. For example, a company might face environmental risks related to its ownership of contaminated land, an oil spill it was responsible for, its disposal of hazardous waste, its management of toxic emissions or its compliance with the government’s environmental regulations.



Social criteria look at the company’s business relationships. Does it work with suppliers that hold the same values that the company itself claims to hold? Does the company donate a percentage of its profits to the community or perform volunteer work? Do the company’s working conditions show a high regard for its employees’ health and safety? Are stakeholders’ interests taken into consideration? Is diversity considered in hiring and succession plans?



Governance deals with a company’s leadership, executive pay, audits and internal controls, and shareholder rights. With regard to governance, investors want to know that a company uses accurate and transparent accounting methods with a strong ethical culture with zero tolerance for corruption. They also want companies to have written policies in place that provide clear guidance to stakeholders of expectations around their behavior. Finally, they want accountability and procedures in place for ensuring that accountability, including alignment of executive pay.

Environmental, Social and Governance (“ESG”) Considerations in Infrastructure

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Climate Change	Human rights	Board composition
Greenhouse gas emissions	Labor standards and working conditions	Executive compensation
Renewable energy	Cybersecurity	Audit committee structure
Air pollution	Gender and diversity	Accounting fraud
Water security	Health and safety for employees, customers, community	Succession planning
Waste generation and disposal	Stakeholder communications	Bribery and corruption
Deforestation	Employee engagement	Lobbying activities
Habitat protection		Political contributions
		Whistleblower protection

ESG in Infrastructure Investing

As an asset class, infrastructure provides direct exposure to ESG and plays a critical role in the essential functions and sustainability of communities and their environments

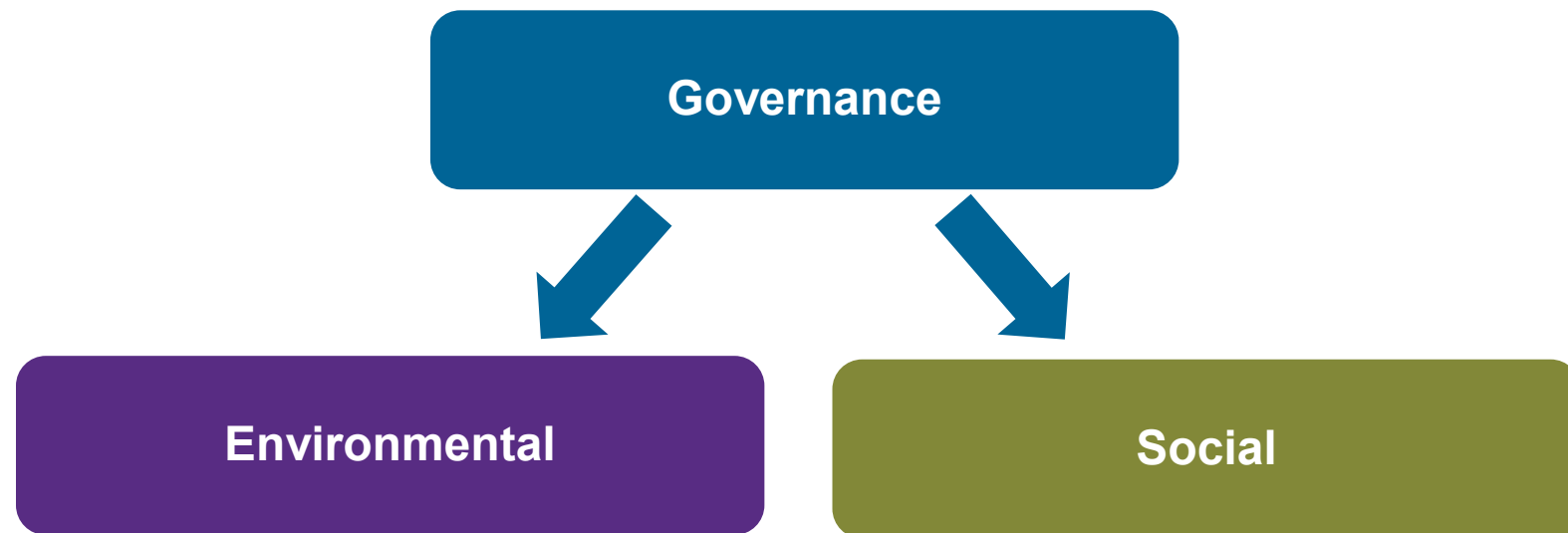
Long lived assets that are designed to provide stable long term returns

Critical assets that support people's lives and communities

Operate within complex regulatory, environmental, safety and customer service frameworks

ESG Management Begins with “G”

Active governance is the first step to implementing ESG practices, reviewing risks and opportunities and having a significant impact on a company’s ability to achieve its objectives



- **Majority Control** – *allows for implementing of sustainable practices*
- **Independent Board of Directors** – *provides diversity of thought, relationships and experience*
- **Business-Wide Policies** – *includes policies and process for hiring practices, health and safety, anti-corruption and stakeholder engagement, among other essential business elements*
- **Culture of Accountability and Alignment** – *allows for implementing long-term strategy and goals*
- **Leading Driver of Returns** – *research has demonstrated that active governance is a leading driver of adding value to performance; mapping goals to tangible metrics and outcomes*

Source: J.P. Morgan Perspectives: ESG Investing Goes Mainstream, Global Research Investment Banking Research Paper, May 2018.

Governance Lays Groundwork For Sustainability

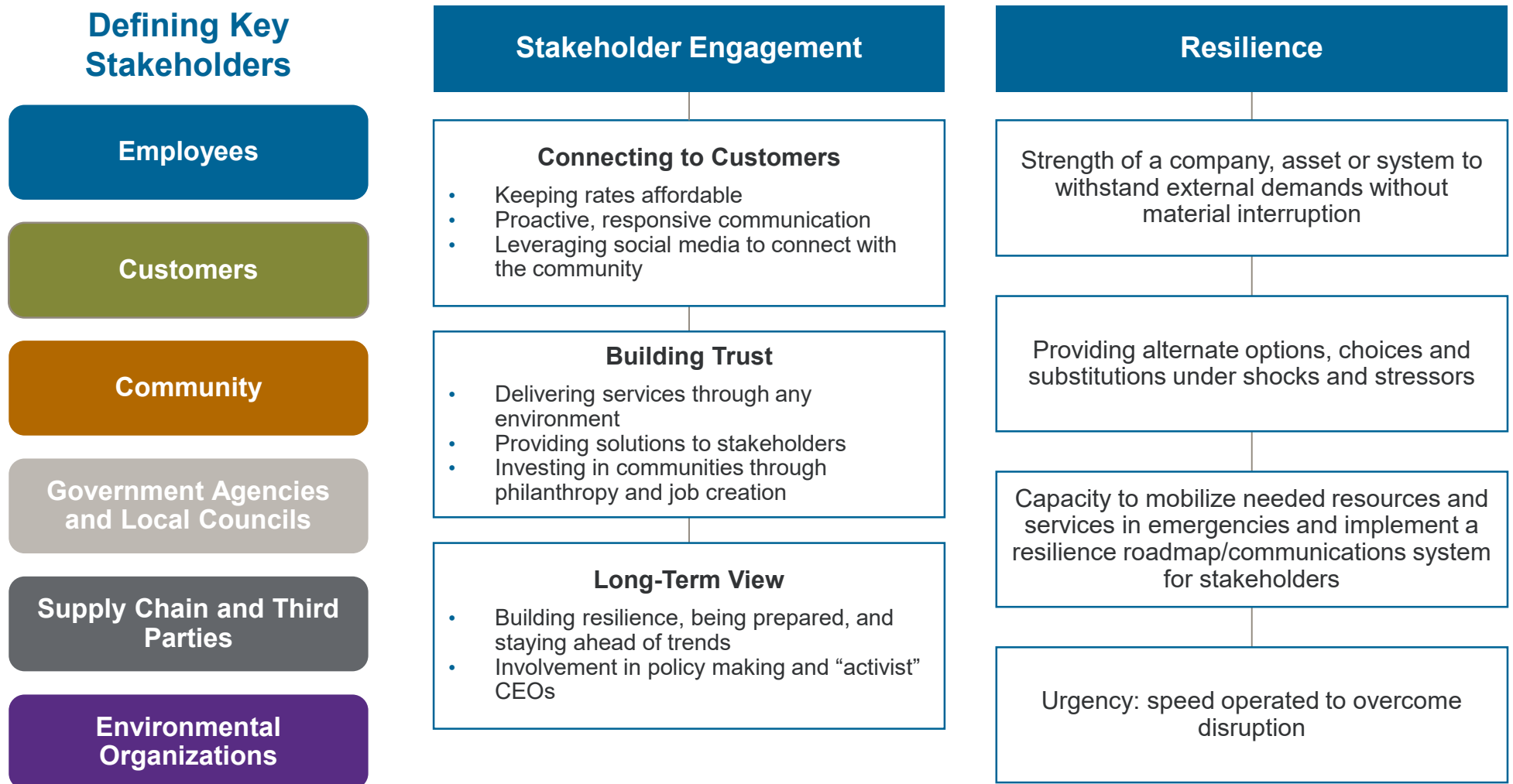
Proper oversight of management, culture, and the alignment of stakeholders' incentives help companies with implementation and provide appropriate risk-adjusted returns

Management Oversight	Corporate Culture and Internal Controls	Aligned Incentives
<p>Independent oversight of company management</p> <ul style="list-style-type: none"> • Control positions • Build diverse Boards • Formalize onboarding process • Review company's policies and procedures • Annual Reviews and skill assessments 	<p>Open, transparent and ethical culture</p> <ul style="list-style-type: none"> • Discuss mission and values • Transparent environment • Implement the necessary policies • Put committees in place (Health and Safety, ESG, etc) 	<p>Clearly defined responsibilities</p> <ul style="list-style-type: none"> • Aligned compensation and expected outcomes • Regular performance reviews with measurable goals • Provide feedback at quarterly board meetings • Succession planning • Aligning interests of all stakeholders

For illustrative purposes only.

Playing Offense and Defense to Invest and Manage for the Long-Term

Implementation of strong ESG practices, with an emphasis on the “S” via stakeholder engagement, is critical for a long-term, sustainable investment.



For illustrative purposes only.

Stakeholder and Community Development Initiatives

Infrastructure assets provide long-term essential functions to local communities

Employee Engagement
in Community

Health and Safety
Reviews

Local Employment
Opportunities

Positive Reputation
Impact

Regional Australian Airport

- Hosted its annual stakeholder engagement celebration event
- Opportunity for airport partners, employees and local business and political leaders to meet and celebrate the local community on the airport tarmac

U.S. Generation Company

- Employee participation in local community events
- Bike to Work aid station
- Sponsored a team in bike race to raise awareness for MS; have raised over USD 60,000 in the past 3 years
- Adopted a highway to clean up

U.S. Renewables Company

- Provides scholarships for high school students in local community
- Host stakeholder engagement events at local community wind farm sites

European Renewables Company

- Contributed over GBP 1.6 million in funding for social projects in the communities where the company's assets operate
- Send internal newsletters to employees and provide informal trainings, many hosted by the company's own employees

For illustrative purposes only.

Management of ESG Factors Impacts the Bottom Line

Responsible investment aims to incorporate environmental, social and governance factors into investment and asset management decisions, to better manage risk and generate more sustainable, long-term returns



Transparency around how a company manages ESG risks and opportunities is part of its value proposition

Appendix

PRI Rating and Methodology Overview

PRI rating and methodology overview

- Each of the 10 assessed modules have a consistent scoring approach
- Equal weighting is applied to individual indicators (where indicators include information about different practices, the practices are assessed separately but weighted equally)
- Two new bandings were introduced from 2015:
 - An additional band was created for the signatories scoring above 95% in a module to distinguish and provide more granular feedback to top scoring signatories (A+)
 - Signatories that do not implement responsible investment for an asset class will be put into a separate band from those who are active, but in early stages of developing processes to separate the two groups and provide more contextual feedback (E)

Each module contains two types of assessed indicators

- **Core assessed:** all signatories are assessed on these indicators and make up the majority (~75%) of their overall assessment score for each module. These indicators are frequently, but not always, mandatory to disclose. Completing these indicators and demonstrating advanced levels of implementation will enable a signatory to reach the third-highest performance Band (B)
- **Additional assessed:** signatories can generally complete these indicators if they wish (i.e. they will usually be 'voluntary to report') and they provide an opportunity to demonstrate more advanced stages of implementation or reflect alternative practices

Indicator Scoring

- Signatories receive a score for each 'core assessed' and 'additional assessed' indicator in every relevant module in four categories, ranging from (no stars) to (three stars).
 - For binary indicators with only 'Yes'/'No' response options, these will be the only two scores available.

Module Score (%)	Performance Band
>95%	'A+'
76-94%	'A'
51-75%	'B'
26-50%	'C'
1-25%	'D'
0	'E'

Source: UNPRI 2018 Assessment Methodology Overview



What is GRESB?

GRESB is the global ESG benchmark for real assets with the mission to enhance and protect shareholder value by evaluating and improving sustainability best practices in the infrastructure sector

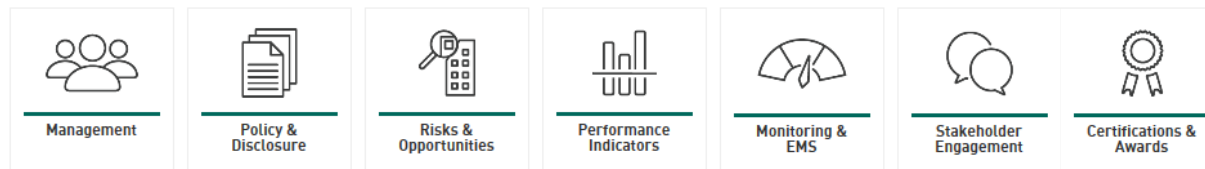
- The GRESB Infrastructure Asset Assessment provides the basis for systematic reporting, objective scoring and peer benchmarking of ESG management and performance of infrastructure assets around the world
- The Asset Assessment is organized around 7 core aspects:
 - **Management**
 - **Policy & Disclosure**
 - **Risks & Opportunities**
 - **Monitoring & EMS**
 - **Stakeholder Engagement**
 - **Performance Indicators**
 - **Certifications & Awards**
- GRESB Infrastructure is in its third year and is becoming the global ESG benchmarking standard that investors and prospects look at regarding ESG performance and integration
- Assessment evolves each year to better reflect ESG industry trends and to produce the most accurate scoring and relevant results for each infrastructure sector
- IIF participates in GRESB and uses the assessment and results to benchmark against peers, formally engage with each portfolio company, review areas of success and share best practices and discuss areas of improvement as it relates to ESG policies, process and implementation

Source: GRESB 2018 Assessment Process Overview

GRESB Infrastructure Rating and Methodology Overview

GRESB rating and methodology overview

- The GRESB infrastructure assessment provides the basis for systematic reporting, objective scoring and peer benchmarking of ESG management and performance of infrastructure funds and assets around the world
 - Two components: the Fund assessment and Asset assessment
 - The Fund assessment contains ten indicators focused on management and investment processes
 - The Asset assessment is organized around seven core Aspects (below) covering the most material ESG issues for infrastructure investors. The Aspects include indicators addressing asset-level plans and policies, on-the-ground actions and ESG performance



- If the entity is placed in the top quintile, it will have a GRESB 5-star rating; if it ranks in the bottom quintile, it will have a GRESB 1-star rating.
 - As more companies and funds report over time, and as ESG performance improves, the thresholds for reaching the next category will change.
 - Therefore, the GRESB Rating is thus a relative measure of ESG performance, not an absolute measure

Systematic Assessment with 3 parts

1. **Validation:** GRESB has established a robust data validation process to underpin the accuracy and reliability of its output
 - Based on a three-layer data quality control process designed to ensure submission of high quality information
 - Approach to validation was developed by PwC and involves third party verification by GBCI
2. **Objective Scoring:** The GRESB Scoring Model is based on an automated system, which uses a technology platform designed for GRESB by a third party that specializes in data analysis software development
 - The scoring is completed without manual intervention after data input
3. **Peer Benchmarking:** Peer comparisons that take into account country, regional, sectoral and investment type variations provide a powerful lens through which to benchmark performance
 - Each participant is assigned to a peer group, based on the entity's legal structure (listed/private), sector and geographical location of assets

Source: GRESB 2018 Assessment Process Overview



UN Sustainable Development Goals

- SDGs are a call to action to end poverty, protect the planet and ensure that people enjoy peace and prosperity
 - Work to improve life, in a sustainable way, for future generations
 - Provide guidelines and targets for all countries to adopt in accordance with their own priorities and the environmental challenges of the world



Source: United Nations Development Program; Sustainable Development Goals



Measurability and Reporting of the “S”

“S” Factors	Measurement	SDG Goal
Health and Safety	Accidents, lost time incidents, near misses	Good Health & Well-Being
Gender and Diversity	Employees, management team, Boards – ratio breakout, pay gap	Gender Equality
Citizen-Related Activities	# of community meetings	Partnerships to Achieve the Goal
Jobs and Economic Growth	# of jobs created and retained for local community and contractors	Decent Work & Economic Growth
Training and Education	# of people participating in workforce programs	Decent Work & Economic Growth
Employee Health and Wellbeing	Feedback surveys, use of internal reference tools	Good Health & Well-Being
Fair Labor Practices	Policies in place and track any violations or concerns	Reduce Inequality
Philanthropic Capital Invested	Amount of community or philanthropic funding invested	Partnerships to Achieve the Goal
Neighborhood Revitalization	Specific examples of improvements and amount invested	Sustainable Cities & Communities
Affordable Housing	# of units created or preserved	Sustainable Cities & Communities
Customer Satisfaction Surveys	Feedback to improve training programs and overall service	Decent Work & Economic Growth
Employee Feedback Surveys	Feedback to improve review process, training and culture	Quality Education
Stakeholder Grievances	# of grievances or complaints submitted	Responsible Consumption/Production
Stakeholder Engagement Plan	Implementation of plan, program review, and evaluation	Partnerships to Achieve the Goal

Source: GRESB, PRI, SASB and GRI frameworks. Please see Appendix for IIF’s SDG mapping.

Risk and Disclosures

Supplementary Information

Investing in infrastructure assets or debt associated with infrastructure involve a variety of risks, not all of which can be foreseen or quantified, and which include, among others: the burdens of ownership of infrastructure; local, national and international economic conditions; the supply and demand for services from and access to infrastructure; the financial condition of users and suppliers of infrastructure assets; risks related to construction, regulatory requirements, labor actions, health and safety matters, government contracts, operating and technical needs, capital expenditures, demand and user conflicts, bypass attempts, strategic assets, changes in interest rates and the availability of funds which may render the purchase, sale or refinancing of infrastructure assets difficult or impracticable; changes in environmental laws and regulations, investments in other funds, troubled infrastructure assets and planning laws and other governmental rules; changes in energy prices; negative developments in the economy that may depress travel activity; force majeure acts, terrorist events, under-insured or uninsurable losses; and other factors which are beyond the reasonable control of the Fund or the Investment Adviser. Many of these factors could cause fluctuations in usage, expenses and revenues, causing the value of the Investments to decline and negatively affecting the Fund's returns.

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The deduction of an advisory fee reduces an investor's return. Actual account performance will vary on individual portfolio security selection and the applicable fee schedule. Fees are available upon request.

The UNPRI assessment methodology (10 assessed modules) and assessment report together aim to achieve three objectives set by the PRI Advisory Council (Facilitate learning and development; Identify areas for further improvement; and Facilitate dialogue between asset owners and investment managers) on responsible investment activities and capabilities. JPMAM Direct Infrastructure asset class was ranked with a number of firms in the United Nations Principal for Responsible Investment, which JPM is a signature. The 2017 JPMAM assessment Report is available upon request.

Risks Associated with Investing in the Strategy:

Please consult the Memorandum for other key risk factors associated with investments in the Fund.

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