



## **RESPONSIBLE INVESTMENT FRAMEWORK**

### A.P. Moller Capital

In compliance with the EU Sustainable Finance Disclosure Regulation (Articles 3-5), A.P. Moller Capital has outlined our approach to Responsible Investment, describing how sustainability risks are integrated into our investment decision-making process using the following structure:

- A. Summary
- B. Our Approach to ESG
- C. ESG characteristics of our investments
- D. Investment strategy
- E. Due diligence
- F. Stewardship and engagement policies

#### **A. Summary**

As a fund manager, A.P. Moller Capital pledges to be an ethical partner. This means that we focus on delivering competitive returns for our investors, as well as seeking to create businesses that benefit society through economic and social development. We believe that working towards implementing high sustainability or environmental, social and governance ("ESG") standards at the companies in which we invest, is the best way to mitigate investment risk and an opportunity to create value.

Five key principles underpin our approach to ESG. A.P. Moller Capital:

1. Aligns its approach to ESG with its fiduciary duty to act in the best interests of its Limited Partners by ensuring a balanced view of ESG factors and risks that may impact long-term returns.
2. Incorporates these ESG factors and risks into our investment analysis and decision making, including how portfolio companies, as necessary, will implement improvements in line with A.P. Moller Capital's ESG standards.
3. Incorporates ESG factors and risks into our active ownership practices and ongoing reporting activities, including requirements for portfolio companies to meet our ESG standards.
4. Ensures ESG responsibilities are assigned to effectively oversee the implementation of the framework, and that each member of staff is accountable for ESG integration in accordance with internal policies with support from suitably qualified staff, including from third parties where appropriate.
5. Reports to the Limited Partners and A.P. Moller Capital's Board of Directors on its activities and progress towards implementing the ESG framework, both for the fund manager and the portfolio companies.

These ESG principles are integrated throughout the investment cycle with ESG reviews included in pre-investment decisions approved by the Investment Committee before a potential investment can progress to the next stage.

Infrastructure investments typically involve investing in physical assets over the long term, and related activities may have a broader and more significant impact on the environment and communities in which they are located than when investing in other asset classes. For example, A.P. Moller Capital recognises that infrastructure is associated with specific climate-related risks and opportunities and considers the impact of each potential investment on climate pre-investment and monitors its impact post investment.

Since potential ESG impacts can affect the short-, medium- and long-term performance of investments, the analysis of material ESG risks and management of those risks forms an integral part of the investment decision making processes. For example, the fund risk register includes as assessment of sustainability risks, defined as the risk of ESG events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investments. We believe that this results in investments with better governance, more social focus, lower environmental impact and, ultimately, higher value.

The fund's Investment Board has the overall responsibility for ensuring that ESG is considered in each case. The Risk and ESG Committee has a consultative role to oversee and monitor risks, ESG compliance and other ESG initiatives.

Useful acronyms/definitions:

- *SFDR*: [EU] Sustainable Finance Disclosure Regulation.
- *ESG*: Environmental, Social and Governance.
- *PRI*: [UN] Principles for Responsible Investment (a United Nations-supported international network of investors).
- *Stewardship*: The use of influence by institutional investors to maximise overall long-term value, including the value of common economic, social and environmental assets, on which returns and client and beneficiary interests depend.
- *Engagement*: Interactions between an investor and current or potential investees (e.g. companies), conducted with the purpose of improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure.

## **B. Our approach to ESG**

A.P. Moller Capital's Ethical Policy sets forth its overall approach to managing ESG issues related to its investments. The policy describes A.P. Moller Capital's ESG framework, which provides for the consideration of ESG issues throughout the entire lifecycle of the investment process, and outlines the ambitious ESG principles and standards that A.P. Moller Capital is committed to following. The Ethical Policy is based on the principles of the United Nations Global Compact, the PRI and the IFC Performance Standards on Environmental and Social Sustainability including the World Bank Group Environmental, Health and Safety Guidelines, and good international industry practice.

Related to good governance practice, A.P. Moller Capital has developed internal guidelines related to Anti-Bribery and anti-Corruption (ABC) in compliance with the US, UK and Danish ABC regulations, Anti-Money Laundering (AML) in compliance with the EU AML Directive, responsible tax practices, and guidelines for company boards.

A.P. Moller Capital is committed to monitoring regulatory requirements as well as any changes to the PRI, our ESG standards and other relevant corporate policies (including a Limited Partner's policy or a portfolio company's commitment to a particular ESG standard) and international codes of conduct, e.g. the OECD Guidelines for Multinational Businesses and the UN Guiding Principles on

Business and Human Rights. We regularly evaluate whether updates, amendments or changes to our approach should be made.

A.P. Moller Capital integrates sustainability risks in the investment decision process and our remuneration policy encourages employees, including management, to create sustainable results and promote a sound risk management culture. Performance reviews, which are linked to our remuneration process, consider the performance of our employees in carrying out A.P. Moller Capital investment processes which contain specific ESG requirements.

### **C. ESG characteristics of our investments**

A.P. Moller Capital tracks the ESG performance of each of the portfolio companies. Any ESG risks and gaps to meeting our standards identified during the pre-investment due diligence process are addressed during active ownership through the company board and the post investment 100-day plan or ESG action plan. A.P. Moller Capital also records the positive impact that A.P. Moller Capital's investment has on the portfolio company.

Portfolio company ESG management systems include:

- Reporting on compliance with ESG standards for incorporation in an annual report by the fund.
- Reporting to the Manager, as soon as practicably possible, any material ESG incident e.g. that results in loss of life or significant environmental impact.

Numerous ESG KPIs are monitored during the investment holding period, for example: jobs, health and safety statistics, greenhouse gas emissions, staff turnover, tax payments, responsible procurement and anti-corruption training. Mandatory indicators required under the EU SFDR and all additional, relevant SFDR indicators related to adverse impacts on climate, environmental, social, employee, human rights, ABC sustainability factors will be monitored.

A.P. Moller Capital holds quarterly internal meetings relating to portfolio company performance and ESG is included in this review process.

### **D. Investment strategy**

As an active owner, A.P. Moller Capital always seeks to have significant influence in the investments we make on behalf of the funds we manage. We apply a structured value creation approach to developing infrastructure assets and actively ensure portfolio companies work towards implementing our ESG standards through our board membership. A.P. Moller Capital's Ethical Policy covers all of its investments and A.P. Moller Capital's Board has oversight; further, management is responsible for assessing, implementing and reporting on ESG-related risks and opportunities.

#### *Exclusions*

A.P. Moller Capital does not invest in businesses/projects that:

- Employ forced labour of any kind.
- Allow children to form part of their workforce.
- Pay wages which are below industry or national minima.

- Are in a country or involve a person, group or entity subject to international trade embargoes or sanctions at the time of investment.
- Generate over 90% of revenues from mining of coal or from energy production based on coal.
- Are incorporated in EU non-cooperative jurisdictions for tax purposes (blacklist) at the time of investment.
- Manufacture or trade weapons, including the development, production or storage of nuclear weapons and the production of components made explicitly for use in nuclear weapons.
- Generate power from a nuclear reactor.
- Manufacture tobacco or tobacco-related products, unbonded asbestos fibres or radioactive materials.
- Involve gambling, casinos, and related activities.
- Relate to prostitution or pornography.

A.P. Moller Capital recognises the risks associated with investments in transportation and logistics, and therefore seeks to ensure that portfolio companies do not knowingly distribute products deemed illegal under applicable local/national laws or international conventions and agreements.

#### *Environmental and Social Standards*

A.P. Moller Capital actively works with portfolio companies to implement high environmental and social standards, including compliance with the IFC Performance Standards on Environmental and Social Sustainability and the World Bank Environmental, Health and Safety Guidelines. The IFC Performance Standards are:

1. Assessment and Management of Environmental and Social Risks and Impacts
2. Labour and Working Conditions
3. Resource Efficiency and Pollution Prevention
4. Community Health, Safety, and Security
5. Land Acquisition and Involuntary Resettlement
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources
7. Indigenous Peoples
8. Cultural Heritage

#### *Climate Principles*

We recognise that the infrastructure investments we make now, have an impact into the future. We want to be an active participant in the low carbon transition, and recognise the positive social impact of power in reducing the cost of doing business and unlocking economic potential, as well as creating jobs. At A.P. Moller Capital, we:

- Support the Paris Agreement, i.e. being carbon neutral by 2050.
- Support the recommendations made by the Task Force on Climate-related Financial Disclosures and has signed up to the Institutional Investors Group on Climate Change. We consider it a fiduciary duty to ensure stranded asset risks or other losses from climate change are minimised.
- Actively engage with our portfolio companies to reduce the carbon footprint of our investments. We integrate climate considerations throughout the investment cycle:
  - During due diligence and portfolio management, assess financial risks of i) physical impacts of climate change, and ii) transition to a lower-carbon economy.
  - During portfolio management, report on greenhouse gas footprint annually for each underlying investment and implement actions to reduce emissions.

### *Corporate Governance*

A.P. Moller Capital applies international best practice in respect of corporate governance and has developed a corporate governance manual for its portfolio companies with similar standards to A.P. Moller Capital's.

We comply with the requirements of the UK Bribery Act, US Foreign Corrupt Practices Act and Danish anti-corruption law. In compliance with our ABC policy, A.P. Moller Capital does not make any political contributions. A.P. Moller Capital also complies with the EU Anti-Money Laundering Directive and takes a zero-tolerance approach to corruption, money-laundering, terrorist financing, extortion, fraud and other financial crime. We properly report financial information, audit our annual accounts and make tax payments in accordance with applicable law and adopting a responsible approach to tax. A.P. Moller Capital has a whistleblowing procedure that allows suspected violations of applicable law, internal policies or other wrongdoing to be reported anonymously and without fear of retribution for the reporter. We identify, handle and monitor conflicts of interest, including ensuring information only be used in the best interests of the company and not for personal financial gain by any employee.

### **E. Due diligence**

A.P. Moller Capital applies strong integration and commitment to ESG during each stage of the due diligence (DD) process. Subject to approval from the Investment Committee, which includes the consideration of ESG issues, each potential investment is:

- Screened – The investment opportunity is checked against our exclusion list. We carry out sanctions screening and consider adverse media coverage. Initial ESG project risk assessment is carried out, preliminary information on corporate governance collected and potential positive impacts identified.
- Scoped for ESG DD – Climate impacts are identified, project partner(s) ESG commitment assessed, project ESG risks identified, terms of reference for ESG DD agreed.
- Analysed – Compliance with local laws and performance against international standards is assessed with the assistance of external ESG consultants. DD findings analysed, ESG actions agreed, board and company management processes analysed.
- Reviewed – Output of all DD processes, including ESG, are reviewed. The agreements we enter into secure sufficient influence with the project company post-acquisition to follow our ESG standards.

### **F. Stewardship and Engagement Policies**

#### *Approach to Stewardship and Engagement*

Stewardship and engagement are a core part of A.P. Moller Capital's approach to ESG. Our key stewardship objective is to maximise constructive ESG dialogue between us (the Manager), our Limited Partners, our portfolio companies and other wider stakeholders, e.g. industry associations. We require portfolio companies to assign responsibilities to effectively identify, manage and monitor ESG risks, work with responsible business counterparties, and engage transparently and proactively with stakeholders. We believe that our proactive approach to stewardship and engagement maximises our overall returns across the portfolio whilst minimising ESG risks.

A.P. Moller Capital holds regular meetings with our Limited Partners where ESG is a fixed topic on which we engage. At the portfolio company level, material ESG issues identified pre-investment

are monitored post investment through agreed ESG action plans or as part of the portfolio company 100-day plan, and specific ESG targets. We engage our portfolio companies on ESG on a regular basis with priority being given when there are specific ESG issues to be addressed, e.g. a serious health and safety incident has occurred.

A.P. Moller Capital is a member of both the Danish Venture Capital and Private Equity Association<sup>1</sup> and the IIGCC<sup>2</sup>.

A.P. Moller Capital is a signatory to the PRI and completes an annual return which is benchmarked against similar industry peers. Information about the PRI benchmark can be downloaded from their website.

#### *Organisational ESG roles and responsibilities*

A.P. Moller Capital's Board has the overall responsibility for compliance with the A.P. Moller Capital Ethical Policy. The fund's Investment Board approves each investment and is responsible for ensuring that ESG is considered in each case.

The Risk and ESG Committee has a consultative role to oversee and monitor risks, ESG compliance, ESG initiatives and brand exposure of A.P. Moller Capital and its investments. The Committee meets quarterly, and meetings related to potential investments are held during the due diligence process.

Management is responsible for ensuring that the organisation implements ESG policies and objectives as approved by the Board.

The Investment Team is responsible for integrating ESG in accordance with internal policies and procedures, with the support of internal ESG specialists and third-party advisers. ESG considerations and due diligence findings are presented to the Investment Committee.

The Head of ESG is a dedicated responsible investment staff and is responsible for the ESG management system, providing capacity building and supporting the Investment Team during due diligence and portfolio management in relation to portfolio companies.

The Risk Manager is responsible for monitoring the ESG risks included in the risk assessment for each portfolio company. Compliance is responsible for monitoring and reviewing the Company's compliance with all policies including risk management and ESG.

The Limited Partner Advisory Committee meets biannually. During meetings, portfolio allocation, performance, and conflicts of interest are presented. ESG is a standing agenda item.

*Last updated on 14 November 2022*

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<sup>1</sup> **DVCA** aims to strengthen its members' business, networks and skills through a variety of activities and committees focusing on specific areas

<sup>2</sup> **IIGCC**'s mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate