ESG REPORT 2021
Our path to Net Zero

Contents

About us

DIF is a leading independent fund management company, founded in 2005. DIF invests in a wide range of international, high-quality infrastructure projects that generate stable, long-term cash-flows. We currently manage around €9.0 billion of investments across nine investment funds. To date we have invested in and managed over 200 infrastructure and renewable energy projects. DIF has a team of over 160 professionals, spread across ten offices including in Amsterdam (Schiphol), Frankfurt, London, Luxembourg, Madrid, New York, Paris, Santiago, Sydney and Toronto.

About this report

This is DIF's fourth stand-alone annual ESG report. Responsible infrastructure investment is a complex arena and we recognise that we are on a constantly-evolving journey when it comes to making our investment portfolio truly sustainable. We trust this report offers insights into our approach to responsible investment, provides specific details of how we are assessing the ESG performance of our investments and expresses our commitment to deliver sustainable returns through access to high-quality infrastructure investments. This report covers DIF as a company, including our funds under management, and applies to the calendar year 2020.

We very much welcome feedback from all stakeholders via esg@dif.eu to help us on our journey of continuous improvement.

Foreword from our CEO

Since DIF launched, over 15 years ago, the connection between our investments and their benefits to end users has been fundamental to our culture.

From schools to solar farms, hospitals to heating networks, our portfolio's success rests largely on its ability to make a significant contribution to sustainable development goals and wider society. This year alone, our investments helped over 3.9 million people to gain access to hospital beds and school places, and over 18 million people benefited from the broadband networks or utility services our portfolio holdings provide.

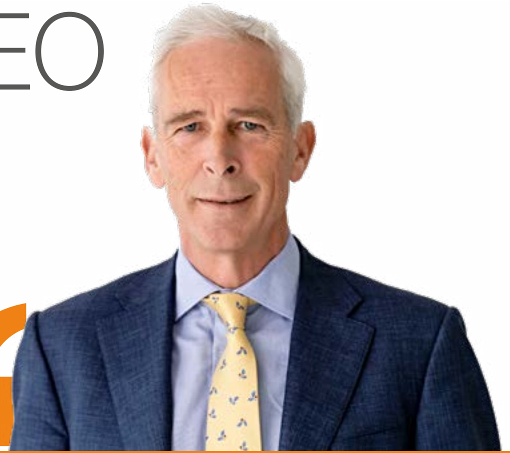
In this report we not only provide details of how the high quality infrastructure we invest in benefits wider society, but also demonstrate how our ESG strategy aligns with a mission to deliver stable cash flows and sustainable returns.

A climate of change

The August 2021 report from the Intergovernmental Panel on Climate Change demonstrated how rising global temperatures are causing extreme weather and radical changes to sea and permafrost layers. It showed there is no longer any shadow of a doubt connecting human activity with unprecedented global temperature rises. Yet it also showed we have the potential to stabilise the climate if we make the rapid and far reaching transitions required to move towards net zero by 2050.

However, let's imagine what a net zero world looks like

It is likely to mean energy efficiency and insulation as standard, even in older houses, with gas boilers replaced by heat pumps and waste focused on sorting and processing. Everything that can be will be electrified - powered by a low carbon grid. Greater adoption of remote working may have curtailed car use. Most cars and vans will be electric with a far greater reliance on shared models of ownership. Batteries for these cars will be charged at night when the power draw on the grid is lower balancing the intermittency issues of renewable energy technologies. Trains, good vehicles and ships will all be run on electricity or other low carbon technologies such as hydrogen. Short term air travel will be replaced by train travel and an increasing number of planes will run on biofuel or synthetic fuels. There will be a rise in the amount of land covered in forest and peatlands as these are good stores of carbon dioxide. In contrast, land dedicated to grazing will reduce due to the falling demand for meat.



"As infrastructure players we are ideally placed to support the low carbon transition, and want to take our place in this transformation having committed to become a net zero investor by 2050 or sooner.

It may seem like science fiction at this point in time but what this future glimpse of potential daily life shows is that, if we succeed in transitioning to net zero, we may exist in a radically different world to the one we currently live in. One that requires a fundamental metamorphosis of the infrastructure that forms the backbone of our society.

As infrastructure players we are ideally placed to support this, and are taking our place in this transformation by committing to become a net zero investor by 2050 or sooner.

This was not a commitment we took lightly. It was a decision that involved much discussion across the whole firm and partner group, with the implications being carefully considered.

We are proud to have made this pledge and are taking action to deliver. This includes mapping our portfolio carbon footprint so that we can put in place reduction plans and joining industry pushes such as the Net Zero Asset Managers initiative.

I look forward to sharing more detail on this in the following report and highlight the progress of other key target areas such as increasing focus on diversity within the firm and across our portfolio.

As well as the many inherent benefits many of our investments deliver we aim to continuously improve the ESG performance of all our investments using our 'ESG Path.' This tailored approach to engagement is making projects across the world safer, more energy efficient, and more focused on their local community impact. On average, the ESG performance of investments we actively engaged with has improved by a remarkable 16 percentage points in our ESG Path scoring since 2017.

This report aims to capture details of our sustainability efforts across our portfolio. I hope you enjoy reading it.

Wim Blaasse,
Managing Partner on behalf of the DIF Partners

Our contribution to the Sustainable Development Goals

Investment in modern infrastructure is fundamental to delivering the Sustainable Development Goals (SDGs)

We have identified 7 priority SDGs which correspond with our ESG focus areas. Below is a snapshot of how our investees are contributing to each of them:

Core contributions

SDG 7: Affordable and clean energy

Around **30%** of our portfolio contributes to SDG7, not only by investing in the build and maintenance of renewable energy assets, but also by encouraging energy efficiency and the adoption of clean energy sources across all our portfolio holdings. In 2020 alone, more than **4,500 GWh** of green electricity were generated by our renewable energy projects, enough for 579,000 homes for a year.

For example, the Dublin Waste to **Energy Facility (Ireland)** treats waste so that it generates electricity and minimises any harmful environmental effects. Enough energy is produced at the facility to power 100,000 homes.

SDG 9: Industry, innovation and infrastructure

Practically all our portfolio companies contribute to SDG9 in some way. The infrastructure we invested in in 2020 alone saw the creation of over **4,300 km** of roads to improve transport networks and the roll out of over **600,000 broadband** connections, and utility services such as gas and water to over 18 million end users.

For example, **Loimua (Finland)** is delivering district heating, electricity and natural gas to around 85,000 end users in one of Europe's coldest climates. Loimua has adopted a climate neutrality strategy and is working to increase the share of biofuels in its heating production, including commissioning a new bio-boiler at the Vanaja power plant.

SDG 11: Sustainable cities and communities

Around **19%** of our portfolio contributes to SDG11, helping to build modern cities with sustainable transport systems, commercial and residential buildings and power networks.

For example, **Liege Tram (Belgium)** is building an **11.7km tram** line with 20 stations through the heart of the city of Liege, to vastly improve the quality of public transport and provide passengers with a rapid, public transit alternative.

SDG 3: Good health and well-being

Around **9%** of our portfolio contributes to SDG3, by investing in the creation and management of healthcare assets such as hospitals and residential homes. In 2020 alone our investments created over **4,200 beds** for patients, and our fiber networks enabled online healthcare to be delivered to residents in Canada, the UK, Finland and France.

For example, **Vallecas Hospital (Spain)** is one of Madrid region's primary hospitals and has been a critical medical resource throughout the pandemic. The hospital houses over **200 beds** and provides services to a population of over 260,000 patients.

SDG 4: Quality education

Around **10%** of our portfolio contributes to SDG4 through the building and maintenance of schools and by encouraging our assets to consider scholarship programmes, training and support for local students as part of their human resource and community investment approaches.

For example, our **PPP Schools (Australia)** project has developed two new schools around Adelaide. Both will accommodate **1,500 students** plus an additional **100 students** with learning difficulties. The schools also include community and entrepreneurial hubs, performing arts centres, gyms, sporting facilities and libraries.

SDG 6: Clean water and sanitation

Around **10%** of our portfolio contributes to SDG6 both through investments in water suppliers such as Affinity (UK) and by working with our assets to improve water systems.

For example, **RDA Roads (Chile)** has modernised its conventional wastewater treatment plants to produce 50% less sludge, and to use treated effluent for irrigation and biogas recovery. This includes providing wastewater treatment to facilities in the very remote areas that the road cuts through.

SDG 10: Reduced inequalities

Around **6%** of our portfolio contributes to SDG10, helping to create jobs and increase accessibility to services from fiber networks to better transport infrastructure and utility services. We also encourage all assets to build excellent community relations. Our investments donated at least €1.6 million to programmes and initiatives aimed at local communities in 2020.

For example, **Valley Fiber (Canada)** is connecting more than **40,000 homes** and businesses to its fiber and fixed-wireless networks. With support from the Canadian government, this includes the provision of internet access for rural communities, helping to break the digital divide in some parts of the country.

Intrinsic public benefits

Education facilities in our portfolio are used by over 30,000 students across 50 schools

Our healthcare investments provided 4,200 beds for patients in 2020.

"From solar farms to sewers, infrastructure is crucial for sustainable development. With our focus on improving the ESG performance of our investments there is a risk of overlooking the intrinsic benefits of these projects. Our new tool gives us a lens to help us see the wood from the trees, showing the public benefits of our portfolio" – **Frank Siblesz**, Head of ESG, DIF

Measuring what matters

Most of our ESG activity, and much of this report, is focused on our 'active' impacts. I.e. those environmental and social benefits that stem from our ESG integration or our 'ESG Path' engagements with investees.

That helps us closely track progress, but risks not capturing the intrinsic public benefits that many of our investments create.

How, for example, our state-of-the-art highways allow millions of drivers to travel more quickly, safely and efficiently. How our hospital and school investments improve health and enrich education. How fiber networks get thousands online to close the digital divide. And how our clean energy assets are laying the foundations for the low-carbon economy.

This year we worked with leading sustainability consultancy ERM to develop a methodology to better capture and report on these public benefits.

Click here

Healthcare for people and planet at Toledo

Read our online case study of how our investment in Nuevo Hospital de Toledo in Spain is providing 435,000 residents with access to high-quality healthcare in the wake of the Covid-19 pandemic and achieving best practice on energy efficiency.

The methodology

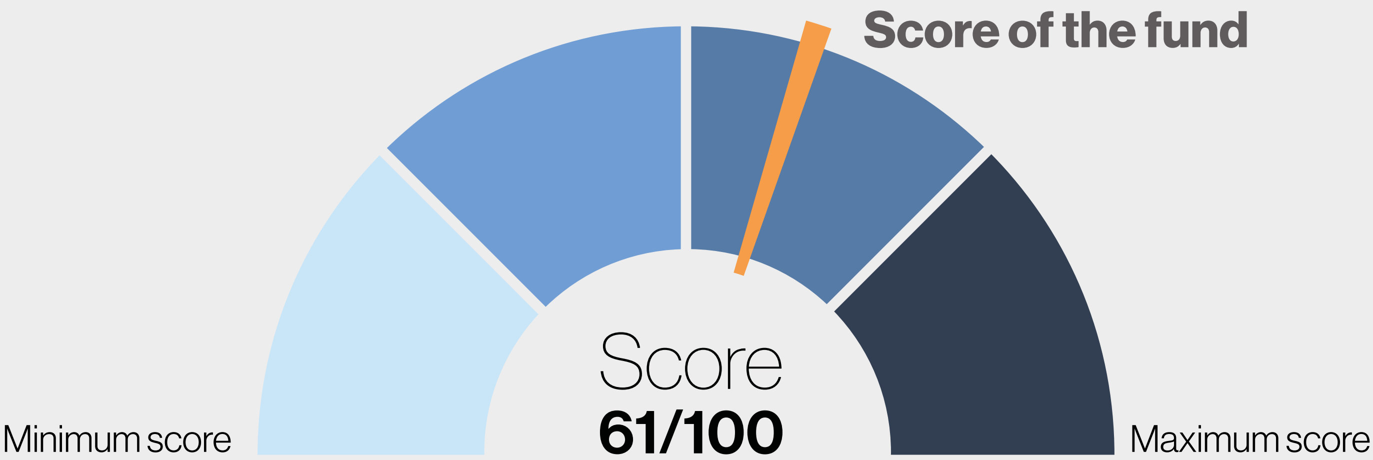
Our methodology produces a score for each asset based on a comprehensive and credible set of impact categories. These are based on the international-standard Impact Radar Tool developed by the UNEP-FI, and adapted for the DIF investment universe.

The methodology takes 3 different levels into account:

- Sector level: Analyzing SDG-related impacts by sector, with industries such as renewables and healthcare scoring highly.
- Country level: Taking each countries' specific needs or issues into account, for example an educational project would score higher in a country lacking schooling capabilities.
- Asset level: Analyzing the individual impacts of each asset. So a road that benchmarks high on issues such as decongesting urban areas would score above roads through areas rich in biodiversity.

Impact categories using the Impact Radar Tool range from helping a population to access water, healthcare or quality education to improving biodiversity, air quality or resource efficiency.

At this stage, only the first two assessment levels have been developed: sector- and country-level passive impacts. The asset-level impacts will be added next year.



Our public benefits

Based on this initial work we are able to quantify the implicit public benefits of our portfolio for our investors and wider stakeholders.

As shown in the graphic above, for example, applying the methodology on an aggregate basis across all our current funds shows a score of 61/100.

This is an encouraging score that shows the portfolio is achieving a strong impact based on sectors and countries.

We will continue to refine our methodology and apply it across our funds in the year ahead.

Click here

Shaping education and creating opportunities in Adelaide

Read our online case study on how a project to design, build, finance and maintain two new schools in South Australia is educating over 3,000 students including 200 places for students with learning disabilities.

01 ESG integration

Investment with end-users in mind, and engagement that is bespoke and action-oriented is at the heart of our approach to responsible investment”

Frank Siblesz, Head of ESG

From roads to residential homes, we believe that those holdings which provide essential services to the community in a sustainable way are those that will enhance their value and generate the best long-term returns. Thus, the integration of ESG factors has always been part of DIF’s work and has been adopted as a strategic priority since 2017.

ESG is now firmly embedded in our investment principles, strategy, policies and processes:

- Our ESG Policy is approved by all Partners, with implementation overseen by DIF’s ESG Committee and our Head of ESG.
- All staff have ESG objectives and these are linked to remuneration as reported in our SFDR disclosure.
- DIF has a full suite of policies and internal controls in place to deal with potential conflicts of interest, including a compliance platform which brings together all of our critical policies, relevant training and compliance tools, including Standards of Business Conduct, Conflicts of Interest, Whistle-blower, Gifts and Entertainment, GDPR and KYC/AML.

ESG issues considered both pre- and post- investment

ESG factors are considered at all points in our investment cycle, including in early due diligence, where we have a proprietary ESG Screening Tool to flag potential sustainability risks. Investment opportunities with significant sustainability risks are discussed by the ESG committee. In 2020 several opportunities were not further pursued as a result. Post-investment, our ESG Path uses our influence as an investor to set tailored ESG goals for each asset and improve performance, as detailed below. All DIF staff receive training on ESG topics.

We also have a transparent approach to ESG and are committed to an annual ESG report, to disclose via the UN-supported Principles for Responsible Investment (PRI) and - from this year - reporting on climate risk-based on the recommendations of TCFD, and providing relevant disclosures under SFDR.

We take a flexible approach and also monitor for new ESG trends that might be material to our investments. Last year for example, we observed how employee mental health was emerging with investments such as Thames Tideway using psychologists to deliver health and lifestyle advice to employees.

We also monitor how apps and technology are increasingly being used to improve safety and environment practices. As part of our active ownership approach, we maintain a database of good practices and share them across our portfolio.

We were awarded A+ scores from the UN-supported Principles for Responsible Investment (PRI) for both its ‘Strategy & Governance’ and ‘Infrastructure’ modules and have an ambition to achieve top scores in the PRI’s new methodology when its results are published next year.

As explored in Chapter 3, we also try to live our values through measuring, reducing and offsetting the remainder of the carbon footprint of our own organisation, and by facilitating staff volunteering opportunities and financial support to charities that help build sustainable communities. This has been more important than ever in the last year, given the social and economic consequences of the COVID-19-pandemic.

ESG Focus Areas

Governance	Safety	Community and People	Environment	Climate resilience
Safeguarding that our business and investments are well managed to the long-term benefit of all stakeholders.	Ensuring our investments are safe to employees, users and other stakeholders.	Encouraging our investments to proactively engage with, and have a positive impact on, people and local communities.	Advocating renewable energy, energy efficiency and pollution reduction.	Encouraging our investments to improve resilience to the physical and transitional risks of climate change.

1.1 Our path to ESG improvements

Since we adopted ESG as a corporate priority in 2017, we have been clear that we do not want it to become a box-ticking exercise that generates data and information for the sake of it. For this reason, we have developed our proprietary path for ESG engagement with a focus on the five ESG themes most relevant to the sustainable management of our portfolio: Governance, Safety, People and Communities, Environment and Climate resilience.

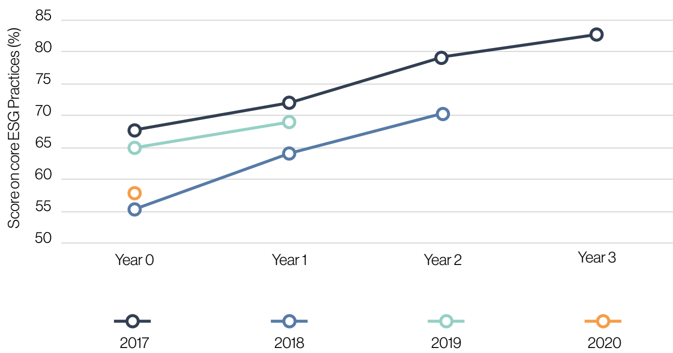
This year a combined total of 80 investments, representing 85% of total invested capital were engaged on their ESG performance.

The information captured in the ESG Path annual survey is used to set tailored targets for each asset on their most material sustainability issues. The targets are agreed mutually and we monitor and support the investee throughout the year as actions are implemented. A key principle behind our ESG Path is that it fosters a two-way dialogue, helping us to understand the challenges that the investments face, as well as keeping our ESG activity streamlined and action-oriented. Chapter 2 of this report details the results of the ESG Path in 2020.

The lessons learned in the ESG Path also help us in our engagement with the DIF Yield investments covered by the GRESB assessment. By taking an active engagement approach DIF helped investments identify performance gaps, improve evidence submission and develop action plans to improve their ESG performance.

We have seen that actively engaging on ESG with investments and providing them with dedicated ESG action plans helps to significantly improve portfolio wide ESG performance. Investments covered by our ESG engagement have, on average, achieved a relative improvement of 15% on their ESG performance on an annual basis.

Figure 1: Our active engagement leads to year-on-year improvement in ESG performance



Among other benefits, the ESG Path:

- Creates bespoke targets in the five focus areas, meaning that each asset receives individual targets and scores to tailor their objectives, while also allowing DIF to monitor and benchmark performance across the portfolio.
- Provides investments with guidance and access to tools in areas such as GHG measurement and diversity.
- Creates a database of good practices, enabling DIF to share ideas and knowledge between peers to raise ESG standards for all. For example, our US road investments are currently sharing knowledge on how to integrate solar panels.
- Encourages continuous improvement through a system categorising four levels of ESG performance from ‘Core’ minimum standards, to ‘Intermediate’, ‘Advanced’ and then ‘High Performer’ practices.

1. Excluding DIF Yield

Case study

A path that performs

Our formal ESG engagement is now in its fourth year, and the proportion of our portfolio covered by the initiative has grown significantly from 32% of invested capital in 2017, to 85% in 2020[2].

Most encouragingly we consistently see how the tailored approach to engagement – creating individual action plans for each investment - delivers performance improvements across our five core ESG areas. From higher safety standards to increasing community investment and better management of climate risk.

This year over 85% of assigned actions across all action plans were achieved, with the majority of actions not achieved postponed due to COVID-19.

The M4 Motorway in Ireland is a case in point. Its safety scores have risen from 61% to over 89% since 2017 thanks to the introduction of measures such as near miss monitoring and through knowledge sharing. The project recorded zero injuries in 2020. The project has also improved its 'Community and people' score by similar levels having introduced measures for vulnerable users such as a system to detect vehicles driven by disabled people to exempt them at the toll plaza and a freephone line for disabled drivers who have difficulties on the road.

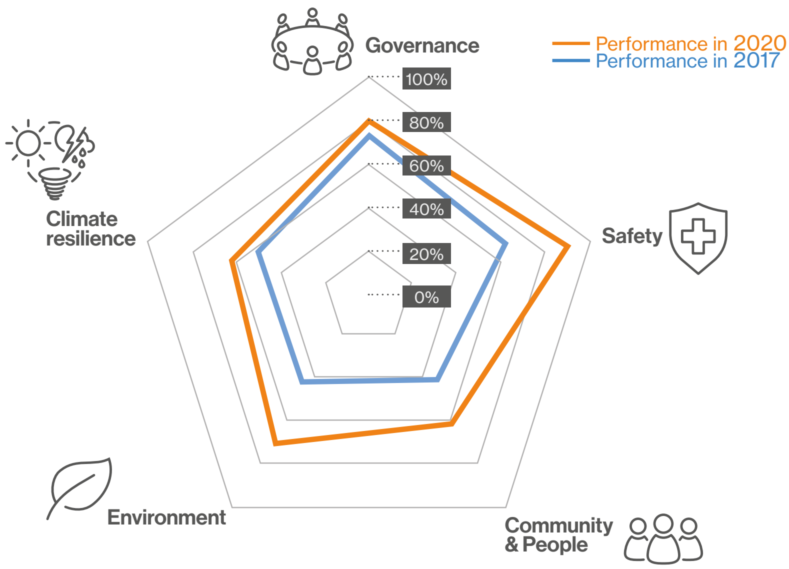
On average, investments that have been involved since 2017 have increased their ESG Performance by 16 percentage points. In 2017 the average score on the most complex ESG practices (i.e. our 'High Performers' category) was only 20%, by 2020 this had grown to 37% reflecting the increasing interest and understanding of more demanding ESG practices..

As shown in the graphic below, this has propelled improvements in all five focus areas, most markedly in the areas of Safety and Environment.

Continued progress is being boosted further by portfolio wide campaigns in key areas such as diversity and carbon footprinting, where we are able to provide tools and last year, for example, our new GHG emissions calculation tool was used by 23 investees to calculate their GHG footprint.

Invested capital participating in the ESG Path has doubled from 42% to 86% since 2017.

Figure 2: Collated performance across five Focus Areas of investments on ESG Path since 2017.



Investments involved since 2017 have increased their ESG Performance by 16 percentage points

2. Note invested capital data is exclusive of DIF Yield

1.2 Focus on diversity

In order to improve our own performance in this area we set up a DIF diversity working group chaired by two of our Partners: Paul Nash and Angela Roshier. The diversity working group recently published its recommendations to the wider team, including the introduction of unconscious bias training and the production of a diversity and inclusivity statement.

We are seeing investments respond to this initiative. In total, 74% of investments who participate on our ESG Path now have a diversity policy in place and almost half (47%) have launched initiatives to enhance diversity in the last two years. Examples of such initiatives include a partnership set up by BluEarth Renewables to improve recruitment opportunities for local indigenous communities, and a new diversity, equity, and inclusion workgroup in addition to a Director of Diversity & Inclusion appointed to our Canadian Hills project.

Our research shows that DIF compares favourably with peers on both female and international representation. However, we recognise that a more focused strategy and policy to create awareness and further diversity in the firm, across all teams, has to become a paramount objective.

74% of investments who participate on our ESG Path have a diversity policy in place and almost half (47%) have launched initiatives to enhance diversity in the last two years.

3. From 58 relevant assets in our ESG Path

1.3 Climate risk

> "Climate change is the single biggest threat faced by our generation. We have committed to Net Zero because we see it as our responsibility to take urgent action across our portfolio to tackle the climate crisis"

Gijs Voskuyl, Partner and Head of Infrastructure

Climate change has been part of our ESG approach since its inception and in order to adequately recognize its significance it has been one of DIF's dedicated ESG focus areas since 2018. Last year we further enhanced our ESG approach by introducing DIF's Climate Change Heat Map which we use to assess Transition and Physical climate-related risks. This year we took another big step forward by adopting DIF's Net Zero commitment.

Our Net Zero commitment

DIF is committed to support the objectives of the Paris Agreement, in line with the global effort to achieve net zero GHG emissions by 2050 or sooner. As a fund manager we have been measuring and offsetting our carbon footprint since 2019. We are now taking steps to reduce our per capita footprint and will continue to offset any remaining footprint on an annual basis. We also commit to aligning our investment and asset management activities with the Paris Agreement by taking the following steps:

- Working with our portfolio companies to measure GHG emissions and identifying pathways to reduce emissions with a Paris aligned goal of net zero target by 2050 or sooner
- Continuing our investment programme into renewable energy and related infrastructure to support the global energy transition to decarbonised sources of energy
- Reporting in line with the TaskForce on Climate-related Financial Disclosures (TFCD) recommendations
- Reporting on our progress annually

As part of DIF's commitment we will continue to be Net Zero as a manager, while working to reduce the need for offsetting over time. DIF also commits to work with its portfolio companies to become aligned to Net Zero by 2050 or sooner. Section 2.5 reflects on what we have been doing with our portfolio companies through our active ESG engagement. We anticipate to accelerate our portfolio engagement efforts on climate change as we develop and publish 2030 decarbonization targets in line with our commitments as a signatory to the Net Zero Asset Managers initiative (NZAM).

We acknowledge that climate change is a complex issue that requires a large group of stakeholders to act. We are therefore actively collaborating with our peers in the Institutional Investor Group on Climate Change (IIGCC) and the NZAM. We are pleased to see that an increasing number of our investors are actively engaging on climate change and we are looking forward to align our efforts to their climate strategies. Lastly, we also see an important role for governments to accelerate global efforts on mitigating climate change and signed the 2021 Global Investor Statement to Governments on the Climate Crisis as a call to action.

Another important element of DIF's Net Zero commitment is to provide TCFD aligned reporting to our stakeholders. In this section we will therefore provide relevant disclosure of DIF's climate strategy and climate-related risk management in line with the TCFD recommended disclosures on Governance, Missing and Metrics and Targets.

Governance

DIF's Executive Committee (ExCo) ultimately has formal oversight and responsibility for the risks and opportunities presented by climate change. From this capacity the ExCo also delegates authority to other relevant bodies within DIF, such as the Partner Group and the ESG Committee. The Partner Group is provided delegated authority in cases where climate-related risks or opportunities impact the strategic direction of the manager. Earlier this year the ExCo asked the ESG team to prepare a position paper on DIF's Climate Change Strategy. This position paper was initially discussed at ExCo, before being delegated to the Partner Group to ensure broad leadership consensus on the strategic direction taken and the commitment made. The ESG Committee is provided delegated authority on the more day-to-day governance of climate-related risks and opportunities. The ESG Committee annually discusses and approves DIF's ESG approach and budget as proposed by the ESG Team. The identification, measurement and management of climate-related risks and opportunities is included in DIF's ESG approach and budget. Additionally, on a case by case basis the ESG Committee also provides a formal opinion on investment opportunities with a potentially significant climate-related risk exposure.

Figure 3: Climate governance organogram

DIF's Head of ESG together with the ESG team is responsible for ensuring the implementation of DIF's climate risk management procedures. In the pre-investment due diligence this means that DIF's ESG screening tool needs to be applied to identify and flag potential climate-related risk in investment opportunities. The ESG team challenges investment teams on their identification of climate-related risks, consults investment teams on additional due diligence to be performed, and brings investment opportunities to ESG Committee where relevant. Post investment, the ESG team is responsible for implementing the DIF ESG Path. This includes the measurement of climate-related physical and transition risk based on DIF's Climate Change Heatmap, supporting assets with measuring their GHG footprint with tooling and consultancy support as well as actively engaging with investments on the Climate Resilience ESG focus area. Furthermore the ESG team ensures that sufficient resources (tooling, consultancy support) for climate-related risk management are available and provides training on climate change to the wider DIF team. This climate change training is now an obligatory part of DIF's onboarding curriculum.

Strategy

As a long-term investor managing multiple infrastructure funds, DIF recognizes climate change both as a significant risk but also as a significant opportunity. Climate-related risks potentially impact DIF at different stages of our business. On the short and medium term we are exposed to potential physical and transition risk during the ownership of our investments. Physical risk as extreme weather events may damage assets or lead to disruptions in operations. Transition risk as new regulations may lead to additional costs for our investments, or as a shift in market preferences may lead to reduced revenue for our volume-based investments. In the short and medium term we are also exposed to potential physical and transition risk for the exit values of our investments. This may be due to physical risks that are more likely to materialise in the longer term. In terms of transition risk this relates to a potential discount in exit values for investments at risk of becoming stranded assets over the longer term. Lastly, on the medium and long term DIF's management of climate-related risks may potentially impact our ability to raise new funds. As investor expectations in relation to climate change grow over time, DIF needs to demonstrate its capability in managing climate-related risks as well as seizing the opportunities provided by the global transition to Net Zero.

As infrastructure investments have a physical footprint the complete avoidance or elimination of physical climate risk is not feasible. The most material impacts of physical risk are expected to materialize on an incident basis and within specific geographies (occurrence of extreme weather events in specific locations). This means that DIF's normal portfolio diversification strategy already helps to mitigate the impact at portfolio level. For investments with significant physical risk exposure, additional measures need to be implemented at the investment level to further mitigate the impact. With regard to transition risk and opportunity DIF's Net Zero commitment has significant implications for DIF's overall strategy. Investments need to develop Net Zero aligned business plans, comprehensive GHG accounting and reporting needs to be set up, and future fund mandates need to facilitate increased investment in climate solutions.

Risk Management

The identification and assessment of climate-related risk takes place both pre-investment and post-investment. These processes use DIF's Climate Change Heat Map (CCHM) to identify and assess climate-related risks in our (potential) investments. DIF's CCHM covers both transition and physical climate-related risks up to 2040. For the assessment of transition risk DIF's CCHM builds on the Climatewise Infrastructure Risk Exposure Matrix. Transition risks considered include policy changes, reputational impacts, and shifts in market preferences, norms and technology. Assessment is based on a Paris Agreement and a 2˚C scenario, and considers sub-sector and geography inputs. For the assessment of physical risk DIF's CCHM considers the physical effects of climate change that may potentially damage infrastructure directly, disrupt operations, and impact employee safety. The assessment is based on asset specific vulnerability (derived from sector cluster vulnerability) and location specific hazard level (likelihood of different climate hazards to occur over time, based on RCP 8.5).

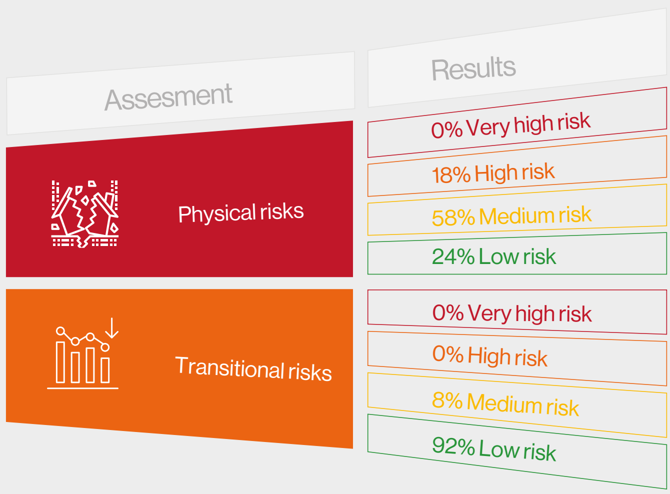
Pre-investment climate-related risk identification is integrated into the ESG screening checklist process. The purpose of the ESG screening checklist process is to flag significant risks. In this context deal teams focus on whether an investment opportunity is potentially high risk based on DIF's CCHM and/or whether it includes a potential fossil fuel exposure. Where relevant additional due diligence is performed and investment cases are brought to the ESG Committee for discussion when significant risks are flagged.

Post-investment a risk assessment is performed for all assets covered by DIF's ESG Path by applying DIF's CCHM methodology on the specific location of assets. The output of this assessment is subsequently used to define the weight assigned to topics in the Climate Resilience focus area of DIF's ESG path. Additionally we have also started supporting our investments with measuring their GHG footprint, which can also be viewed as a proxy for transition risk. On the short term efforts will be focused on getting full portfolio coverage with GHG footprint data and engaging with investments to develop net zero business plans.

Metrics and Targets

The results of DIF's CCHM assessment are included in the below figures. Portfolio GHG emissions data will be included in our fund-level ESG reports as this is the most relevant disclosure level for our investors. DIF is still in the process of developing interim reduction targets, which will be published before July 2022 as part of our NZAM commitment. As of next year we aim to report on our Net Zero progress on an annual basis.

Figure 5: Climate change heat map



Case study

Climate spells opportunity as well as risk

Climate change and the low carbon transition is creating investment opportunities as well as risks.

DIF was an early mover in the mainstream renewables market, having established a dedicated renewables-focused team over a decade ago, and currently holds investments in eleven renewable projects in Europe, the Americas and Australia. These include wind, solar and hydropower assets.

DIF-managed funds have invested in 2.3 gigawatts of clean energy projects, enough to power around 1.4 million homes and save 135 million tonnes of C02.

Examples of these include:

- **Kingfisher wind** in Oklahoma, USA, producing around 1,100 GWh per year.
- **White Eagle** onshore Wind in Poland, with total production estimated to be C.800 GWh per year, helping avoid 100,000 tonnes of CO2 emissions per year from fossil fuels.
- **The Cerro Grande wind farm** in Uruguay comprising 22 turbines, and benefiting from a 20-year power purchase agreement with UTE, Uruguay's state owned utility provider.
- **BluEarth Renewables** in Canada and US currently operates 513 megawatts of wind, hydro and solar facilities, with a further 2 gigawatts in development.

02 Active ownership

85% of invested capital covered by ESG Path

16 new investments – participated in the ESG path for the first time this year

Assets on ESG Path include:

- **40%** transport investments (toll roads, trams, railway, light rail)
- **18.3%** renewable investments (wind, solar)
- **13.3%** social infrastructure investments (hospitals, schools, accommodation)
- **10%** investments in energy production and distribution
- **8.3%** investments in fiber networks
- **10%** investments in other sectors including data centers, streetlighting.

2.1 Governance

We believe that if our investments are to successfully manage ESG risks and opportunities, they need strong and transparent policies, processes and internal governance in place. Good governance, both between us and our investments and at the level of each investment, allows us to engage on ESG topics in a structured and transparent manner. Governance performance is scored as part of our ESG Path covering sustainability management (both policies and practices), whistleblowing systems and sustainable procurement. This section highlights some of the key topics covered in our Governance approach. Scores reflect the achievement of the portfolio against a set of pre-defined ESG practices in the ESG Path.

Our investments perform well on governance, with an average score of 71% in 2020 on this category, consistent with a 72% level in the previous year. The slight decrease is mostly driven by investments engaged for the first time this year, which scored 61% on average. Earlier vintages improved performance to 75% on average.

While many governance requirements are asset-specific, we are clear that measures such as clear policies on business ethics, training activities on ESG topics and clearly defined leadership on sustainability issues should be common to all projects.

Policies and training performance

High-levels of ESG focus are also visible with 74% of assets organising frequent ESG meetings and 70% having a structured system to report on ESG performance to the Board (compared to 76% and 66% respectively in 2019). In total, 80% of investments have established an ABC policy (compared to 84% last year) and 83% have a whistleblowing system in place, up from 76% last year. Again we can see that investments engaged for the first time this year bring down average performance, as those on the ESG Path longer have consistently improved their performance due to our active engagement and action plans assigned to them.

Sustainability in infrastructure is not always simple, and we encourage all our investments to participate in training to work through approaches to issues such as conflicts of interest, or fair treatment of contractors. It is encouraging therefore that our assets provided an average 1.8 hours business ethics training per person in 2020 – up from 1.5 hours in 2019.

2.2 Safety

Infrastructure investments often require important construction or maintenance works with significant safety risks. Therefore, safety is a top priority for DIF and we proactively engage with all our investments to provide guidance and help achieve the highest health, safety and wellbeing standards. This is achieved by focusing on policies but also by recording safety related KPIs to raise awareness within our investments. This section highlights some of the key topics covered in our Safety approach. Scores reflect the achievement of the portfolio against a set of pre-defined ESG practices in the ESG Path.

Overall, the average safety performance score rose from 75% in 2019 to 77% in 2020 – with those who have been longer on the ESG Path averaging 81%. The higher rates of achievement for those who have been on the ESG Path longest demonstrates how effective DIF's active engagement can be.

Results at asset level reflect the importance we place on safety. In total 93% have a safety policy in place and we saw 64% of investments improve their safety performance in 2020. None reported a deterioration. Most have regular safety audits and overarching safety monitoring systems in place.

Two thirds of relevant investments (32/48) recorded zero injuries for both employees and contractors and there were zero fatalities. In total 80% have safety incident monitoring in place (up from 77% last year).

Training and reporting

To ensure our team is able to address safety matters properly, health and safety (H&S) training is provided regularly to all relevant staff at asset level and DIF provides sector and location-specific guidance.

By early 2021 all asset managers and originators had received training on their key safety responsibilities per geography as well as receiving an update on 'hot topics' such as high voltage or confined spaced injuries. All our asset managers also carried out health and safety tours on their assets (to the extent possible in the pandemic), and were encouraged to undertake independent H&S audits.

We also closely monitor 'near miss' reporting – as near misses can be a vital means of preventing serious future accidents. 66% now implement near miss reporting (up from 62% last year), with one asset innovating to enable near miss reporting directly from an app installed on every worker's mobile phone.

Every quarter we report and review all safety incidents, analysing results and reviewing incidents to ensure remedial measures are implemented. Our quarterly safety calls are also an opportunity for our asset managers to learn from incidents across our portfolio in a peer-to-peer setting.

Mental health

In the wake of the pandemic we have also encouraged our investments to undertake initiatives to support employees on mental health issues. For example, Karratha accommodation in Australia ran initiatives to support the mental health and wellbeing of its residents, Affinity Water in the UK ran regular mental health & wellbeing webinars through lockdown, and the occupational health team at Thames Tideway Tunnel offered health and lifestyle advice through toolbox talks and printed material.

Case study

Award-winning Walloon streets shine spotlight on user safety

Our asset in the Walloon region, a French-speaking part of southern Belgium, is a public-private partnership which aims to modernise and maintain the street lighting network across the region's main roads.

The asset has installed a new generation of light sources along the motorways and streets equipped with a smart system to improve user safety. This means that the light intensity varies depending on the traffic, dangerous situations, and the weather. For instance, more intense light would be produced when someone is crossing the street, and lights would flash if they identify a vehicle driving in the opposite direction to the surrounding lanes.

The LED lighting will also significantly reduce the energy bill with an estimated cut in consumption of around 76%. The lights are also orientated towards the roads in a way aimed at leaving nocturnal biodiversity as unaffected as possible.

In 2020 the project was awarded a Green Solutions Awards in Belgium, and is being put forward for an international award.

2.3 People and communities

Infrastructure assets provide essential services to the communities they serve. At the same time they can have significant impacts for people that live nearby, as is often the case for a road or a wind farm. This section highlights some of the key topics covered in our Community and People approach. Scores reflect the achievement of the portfolio against a set of pre-defined ESG practices in the ESG Path.

At DIF, we believe our investments should engage proactively to have a positive social impact on people and local communities – a need that has been highlighted by the impacts of the COVID-19 pandemic. 'Community and People' performance is scored as part of our ESG Path covering labour standards and working conditions, gender and diversity, community development, and user related practices. This section highlights some of the key topics covered in our Community and People approach.

The average score for this category is 58%, compared to 61% in 2019. Again the slight decrease is mostly driven by investments engaged for the first time this year, which scored just 37% on average. Earlier vintages improved performance to 66% on average.

In the wake of the pandemic we saw several investments step up their community engagement programmes this year. In 2020, 63% of investments donated to local communities, providing at least €1.6 million to programmes and initiatives aimed at local communities. This included the creation of new mechanisms such as a community fund set up by Synergy WWF.

However we note that average scores on 'people and communities' remain similar to last year at just over 58%, suggesting that more progress is needed in this area.

Equality of opportunity

We also want our assets to promote equality of opportunity, and there has been encouraging momentum towards addressing diversity issues this year. In total, 74% of investments have a diversity policy in place (compared to 55% last year) and almost one in four (24%) investments now have gender diversity formalised in policy and incorporated in training.

DIF has worked proactively on this issue and over 70% of female Board of Director members on our investments are from DIF. We've also seen investments such as Affinity Water (UK) and American Roads (US) set up a Diversity & Inclusion (D&I) Committee, while Canadian Hills (US) created a role of Director of Diversity & Inclusion.

We aim to encourage a race to the top in this focus area in the years to come. Some regions, such as Canada and Australia, tend to perform better than other territories and we aim to encourage others to learn from best practice. We also note that the majority of low performers are those engaged in the ESG Path for the first time in 2020. We also aim to drive up further formalisation of gender diversity in policy and training across our portfolio.

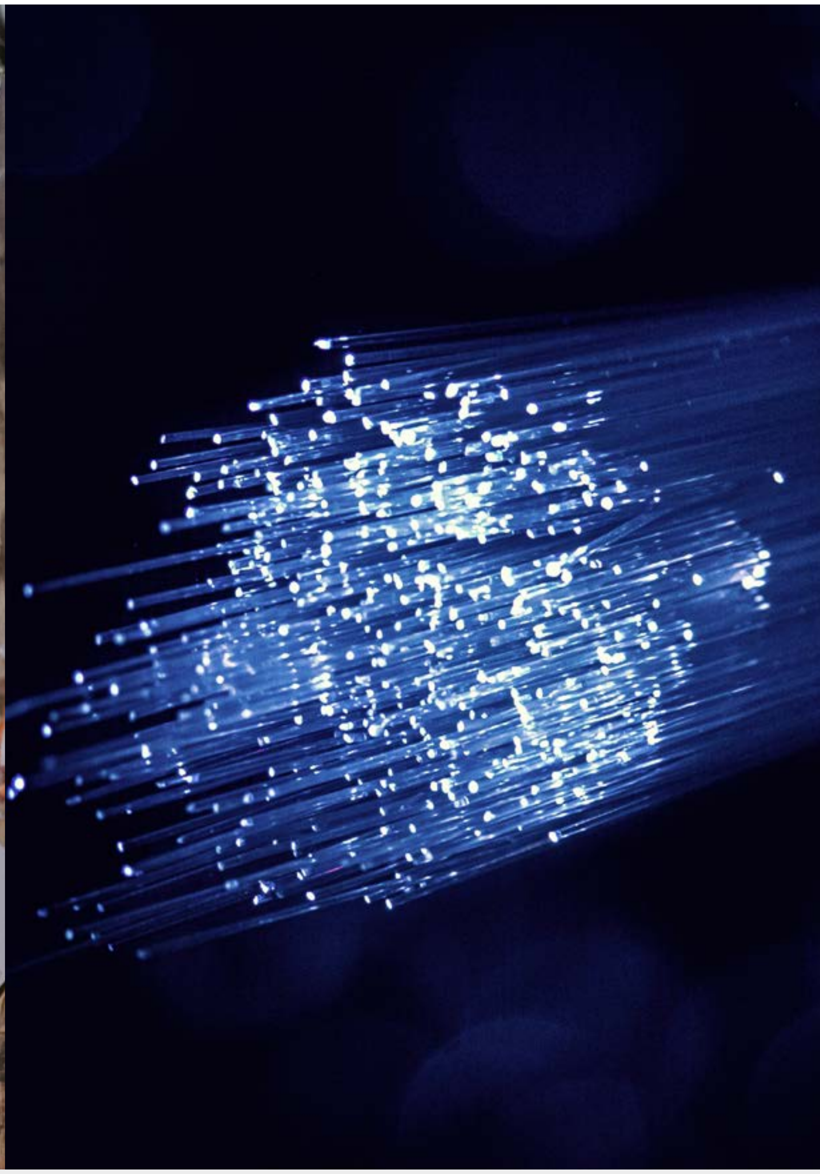
We also want to ensure end-services take into account the needs of vulnerable users.

Connecting people

Investments in high-speed internet infrastructure such as our Valley Fiber investment in Canada are opening up a new array of services for communities from online healthcare to digital education and options to work from home.

Valley Fiber has connected over 3,200 residential and commercial customers in the underserved Manitoba region of Eastern Canada with affordable high-speed internet access, thanks to 48 fixed wireless towers.

It has been directly responsible for the creation of 120 jobs and is ensuring no one is left behind when it comes to participating in this digital world. More than ever the past 18 months of working, learning and receiving care from home has shown the value and importance of having broadband internet connectivity across more than 20 municipalities in Manitoba.



2.4 Environment

By their physical nature, infrastructure investments have an impact on the environment. Whether it is due to the use of energy, water and other resources in their construction, operations and management, or due to the pollution caused by their users. Many of our investments, including our wind and solar farms, make a positive contribution to the environment. But we believe that it is equally important that we work with projects that have negative environmental impacts, such as roads, to find ways to minimise those impacts. Environment performance is scored as part of our ESG Path covering energy use and environmental management practices. This section highlights some of the key topics covered in our Environment approach. This section highlights some of the key topics covered in our Environment approach. Scores reflect the achievement of the portfolio against a set of pre-defined ESG practices in the ESG Path.

The average score for environmental performance was 59% in 2020, with a clear division between those engaged for the first time (averaging 34%) and those who have been longer on our ESG Path (averaging 69%). Last year's average was 63%.

In total, 77% of investments now have an energy saving initiative, with 42% of investments reporting energy savings of over 5% last year. One example is the incentive system put in place by the A6 West in Germany, offering vouchers as rewards to operators who decrease fuel consumption. The road sector in particular is performing well on environmental management with innovations such as the use of LEDs or greater renewables usage being deployed by several investments.

Targeted efforts

There has been positive progress on environmental factors across our portfolio. Among other encouraging results in 2020 60% of investments now monitor environmental KPI's. We have also seen sharing of best practices in areas such as recycling and conservation. For example, district heating provider Loimua in Finland now converts over 1,000 tons of waste ash to fertiliser and other construction materials, and BluEarth in Canada use pollinator seed as its ground cover to provide habitats for species including bees and butterflies at its solar facilities.

Looking ahead, we want to level up environmental performance, so that sectors such as social infrastructure and fiber networks can emulate the performance of sectors like roads. We note that 40% of the investments which do not have an energy saving initiative in place are fibre networks which were engaged for first time in 2020, and that no social infrastructure investments have initiatives to increase renewable energy usage. Both, therefore, offer areas for improvement in 2021.

Case study

Thirsty work

Last year analysis by Affinity Water - who provide water to South East England - showed that their customers were using 9% (13 litres) more water per person per day than the national average.

Reducing usage helps keep water quality high and protects the environment. In particular in that region it helps protect chalk streams such as the River Stress. There are only 210 chalk streams in the entire world and 85% are in England.

To help consumers reduce their everyday water consumption Affinity launched an innovative humour based campaign 'Save Our Streams'. This used stand up comedy and fun digital materials to help customers tap into simple solutions from fixing dripping taps to stopping overfilled baths. The campaign included hosting UK comedienne, Sandi Toksvig, to undertake a comedy gig standing in a chalk stream in the River Stress - available to view online.

Affinity aim to save 21 million litres per day via the Save our Streams campaign.

Click here

Sustainable waste to energy solutions in Ireland

Read our online case study on the delivery of one of Europe's most ambitious environmental projects: A facility able to process 600,000 tonnes of residual waste annually and aiming to convert it into over 68 megawatts of electricity, enough to power 100,000 homes.

2.5 Climate resilience

Infrastructure projects tend to have long-term time horizons, and are often large in scale with a significant footprint. Because of this, climate resilience is particularly relevant for our investments. It is critical that we take account of how changes such as more climate-related regulation, or increased levels of flooding, might affect our investments over the long term. At DIF we are committed to understanding the impact climate change can have on our investments, to managing the risks and opportunities it presents and to work where we can to minimise our negative climate impacts. Climate Resilience performance is scored as part of our ESG Path covering the measurement and management of physical and transition risk, and carbon footprint measurement and reduction. This section highlights some of the key topics covered in our Climate Resilience approach. Scores reflect the achievement of the portfolio against a set of pre-defined ESG practices in the ESG Path.

Overall, average climate resilience performance has risen from 54% last year to 59% - with those longer on the ESG path recording a 69% average score.

This year we additionally asked our investments to measure their carbon footprint in order to set reduction or offset objectives. As part of this we developed and provided the DIF GHG emissions evaluation tool to help them measure their footprint. The tool helps each investee screen for the main physical and transition risks related to their business. in total , 36 investments evaluated their carbon footprint, up from 9 the previous year. Of these, 23 used the DIF tool including the likes of Cross River Rail in Australia, American Roads and Vallecas Hospital in Spain.

Value chain emissions

Among the investments, 33% now evaluate ‘scope 3’ emissions, which also take into account the GHGs emitted by their value chains.

Last year we also saw some investments, such as Affinity Water (UK) and American Roads (US) hold in-depth discussions with insurers about terms related to climate resilience.

Looking forward, we aim to work towards further normalising and quantifying climate risk in what is likely to be an important part of our net zero ambitions. This will include encouraging more investments to measure their carbon footprint.

Case study

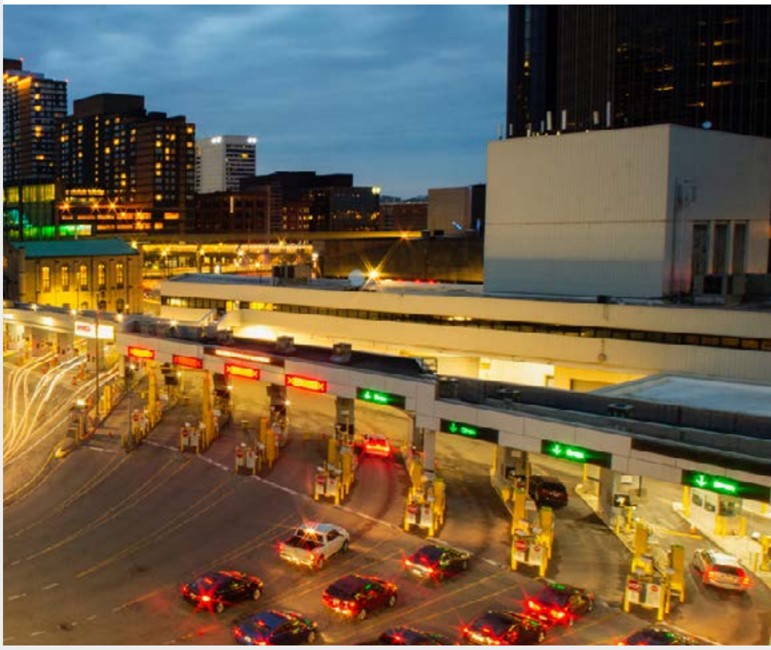
Climate proofing key infrastructure in Detroit

Detroit may be positioned away from the coasts and driest climates of the US, but it is still exposed to extreme weather events which are exacerbated by climate change.

In particular, flooding is a key threat to the city. In the summer of 2020 substantial portions of island river Belle Isle were underwater for several days. The Detroit River has risen 50 inches since 1985.

American Roads are therefore building climate resilience into the operation of the Detroit Windsor Tunnel, which is the second-busiest crossing between the United States and Canada. This has included installing dewatering pump systems, designed to manage ground water, reduce flood risk, and help thaw ice throughout the tunnel.

American Roads is also working to integrate measures to prepare for the impacts of extreme temperatures, flooding, and other significant weather events on toll roads, bridges, and tunnels across Michigan and Alabama.



Click here

Reviving tram networks to cut transport emissions

Read our online case study on how the new tramway is transforming the city of Liege. Creating extra foot fall for local business, cleaner air for local families and taking cars off the road.

03

Sustainability begins at home

"More than ever, 2020 was a year where we felt the need as a company to step up to help our local communities, to care for our newly-remote employees, and to ensure we walked our talk on climate resilience." **Angela Roshier**, Partner and Head of Asset Management

From roads to residential homes, we believe that holdings which provide essential services to the community in a sustainable way are those that will enhance their value and generate the best long-term returns. Thus, the integration of ESG factors has always been part of DIF's work and has been adopted as a strategic priority since 2017.

Taking account of environmental and social issues is not just something for our portfolio investments to handle. It is also integral to DIF's own corporate culture.

Our approach to sustainability 'at home' includes proactive support for our staff to volunteer for and donate to local charities, encouraging staff diversity and reducing our environmental impact - including measuring our own organisation's carbon footprint.

3.1 Our own people and communities

At DIF, we strongly encourage staff at all our nine offices to be good neighbours and to give back to their local communities. Last year this was more important than ever, and we made an additional budget of €200,000 available to help our local communities cope with the impacts of COVID-19.

All DIF employees were offered for two months (July / August), the opportunity to take Friday afternoons off, in support of their mental health and at no additional cost of the holiday balance. DIF as an employer will continue to take innovative steps to support and encourage our employees.

Beyond financial contributions from DIF global, some of the contributions our local teams were able to make included the following:

- **Canada:** Our office in Toronto participated in an online sports event to support local charities including The East York Learning Experience, which provides programmes to help with adult literacy, numeracy and digital literacy, and a COVID-19 emergency response fund for the vulnerable across the Peel, Toronto and York Regions.
- **Netherlands:** Led by Senior Director Engel Koolhaas who volunteers with the charity, our Dutch office contributed to a project to tackle the lack of appropriate materials around dementia for primary and secondary schools. We worked with charity Alzheimer Nederland and local consultancy Ervarea to help create educational short films and textbooks.
- **Netherlands:** Our Dutch office contributed to the Laptop Desk, an initiative to help underprivileged children get online by recycling pre-owned, refurbished laptops. Our support enabled 50 laptops to be recycled and donated.
- **Canada:** Our office supported a German Foundation helping to provide digital skills and education for children and adults who may otherwise be unprepared for the digital revolution
- **UK:** Our team participated in an endurance challenge to raise funds for 'Greater Change,' a non-profit organisation in London providing flexible, personalised funding to homeless individuals.
- **Spain:** In order to further improve the safety and rehabilitation of staff, the Vallecas PPP hospital received support for a cleaning machine (MoonBeam3) that is designed for fast disinfection of surfaces in patient rooms, operating rooms and bathrooms.
- **Germany:** Frankfurtel Tafel (food bank) received financial support to compensate for the lack of volunteers and to keep families out of destitution. Frankfurtel Tafel continues to do impressive work to help people gain access to basic necessities.

DIF-Allia Accelerator Challenge

Three ambitious start-up charities and social enterprises competed in our 'Accelerator Challenge' in the UK - which offers £25k of DIF-funded prize money and business mentoring support to a non-profit focused on achieving one of more of the SDGs.

Charities this year included GrandNanny, which recruits and trains job-seeking neighbours, who are middle-aged or older, and connects them with local families who need childcare support. This not only creates jobs but helps build rewarding intergenerational connections that contribute to economic development and mental health well-being. We also worked with a charity helping to tackle homelessness and a charity supporting access to vaccines.

Over the course of 7 months, the DIF London team provided support to three charities including business planning, strategy, equity fundraising, market sizing, financial modelling, presenting/pitching, sustainability advice and networking. We tailored our mentoring sessions to cater to the specific needs of each start-up, and worked with them to tackle any ongoing challenges, including induction, offsites and separate diversity training.

3.2. Walking our talk on the environment

DIF is a Net Zero company.

In 2019 we measured our organisation's carbon footprint, calculating that we were responsible for approximately 1,400 tonnes of CO2. The largest part of this was generated by business travel. We aim to reduce these emissions through energy saving programmes and other initiatives, and for those emissions we cannot remove, we invest in carbon offset schemes that provide funding to projects which help minimise the impact of climate change.

Last year, due to the coronavirus pandemic, and the lack of business travel we had a much reduced carbon footprint. In total business travel emissions represented over 85% emissions in 2019. In 2020 business travel emissions were down by almost 75%. However we took the decision to still invest in offsets equivalent to 1,400 tonnes of CO2e – matching our 2019 total.

Our offset projects include a reforestation programme in the Great Rift Valley, Kenya, using credits from a Verified Carbon Standard (VCS) project.

We have developed an office checklist covering energy, waste, catering, culture, business travel and commuting, and discussed this with the different office representatives. Following these discussions DIF offices have taken up actions in relation to switching to renewables, engaging with landlords on energy efficiency and reducing waste.

3.3. Promoting diversity

We are firm believers that a diverse workplace generates different viewpoints and outlooks that lead to more inclusive and better decision-making.

Industry-wide, the financial services sector is still lagging in gender diversity at the senior level, and this remains the case for DIF too. We are taking active steps to address the issue, and are working to identify barriers to transition for females to more senior roles. Currently almost 32.5% of all DIF employees are female, compared to 31.2% last year.

DIF has set a corporate target for at least 40% of all employees to be female by 2026.

Some other steps we have taken on diversity and inclusion include:

- Adapting our recruitment process to mitigate unconscious bias, including requirements for gender/ethnic diversity in candidate shortlists
- Revision of the parental leave policy to include non-traditional families and family roles, adoption leave, birth leave for non-primary care givers
- Adding dedicated diversity sections to internal training events, including induction, offsites and separate diversity training.

Although business travel emissions were down 75% in 2020, we still invested in offsets equivalent to our 2019 total.

04
Looking ahead

We are proud that our investments continue to make a positive contribution to societies across the world and will be focused on driving up ESG Performance across our portfolio as the global economy continues its post-pandemic recovery.

In particular we aim to meet some of the challenges highlighted by our ESG Path this year. This includes enrolling more investments into the Path, encouraging more training in ESG areas such as anti-corruption and diversity, and the need to push up environmental performance in sectors such as social infrastructure and fibre networks so they can catch up with the performance of sectors like roads.

As we look ahead, global attitudes and understanding of material ESG risks and opportunities will continue to change. These include a greater interest in areas such as mental health and biodiversity as well as reducing greenhouse gas emissions, improving safety and ensuring the highest standards of human capital management and community relations. We will continue to expand our management tools – including an ambition to introduce intrinsic benefit KPIs for individual assets, and improving how we measure greenhouse gas emissions - to position DIF for long-term success.

Our decision to become a Net Zero investor by 2050 or sooner, reaffirms our commitment to investing in line with climate science and to using our reach to encourage climate action across all our investments. Progress needs to be measured and built on a fair and transparent approach, and one of the first actions on our Net Zero journey will involve setting medium-term emissions reduction targets for 2030.

In the wake of COP26, we aim to be at the forefront of investing in the infrastructure that will deliver the transition to a low carbon economy. We will continue to help scale climate solutions through initiatives such as clean energy assets, low carbon transport and eco-friendly buildings.

And finally, the chaos of the COVID-19 pandemic will keep safety and well-being at the top of our agenda. Including encouraging more frequent health and safety training workshops, and mental health awareness programmes at DIF and in our investments.

With a clear focus on our net zero future, and further improving sustainability across our portfolio we look forward to meeting the challenge of the year ahead.

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