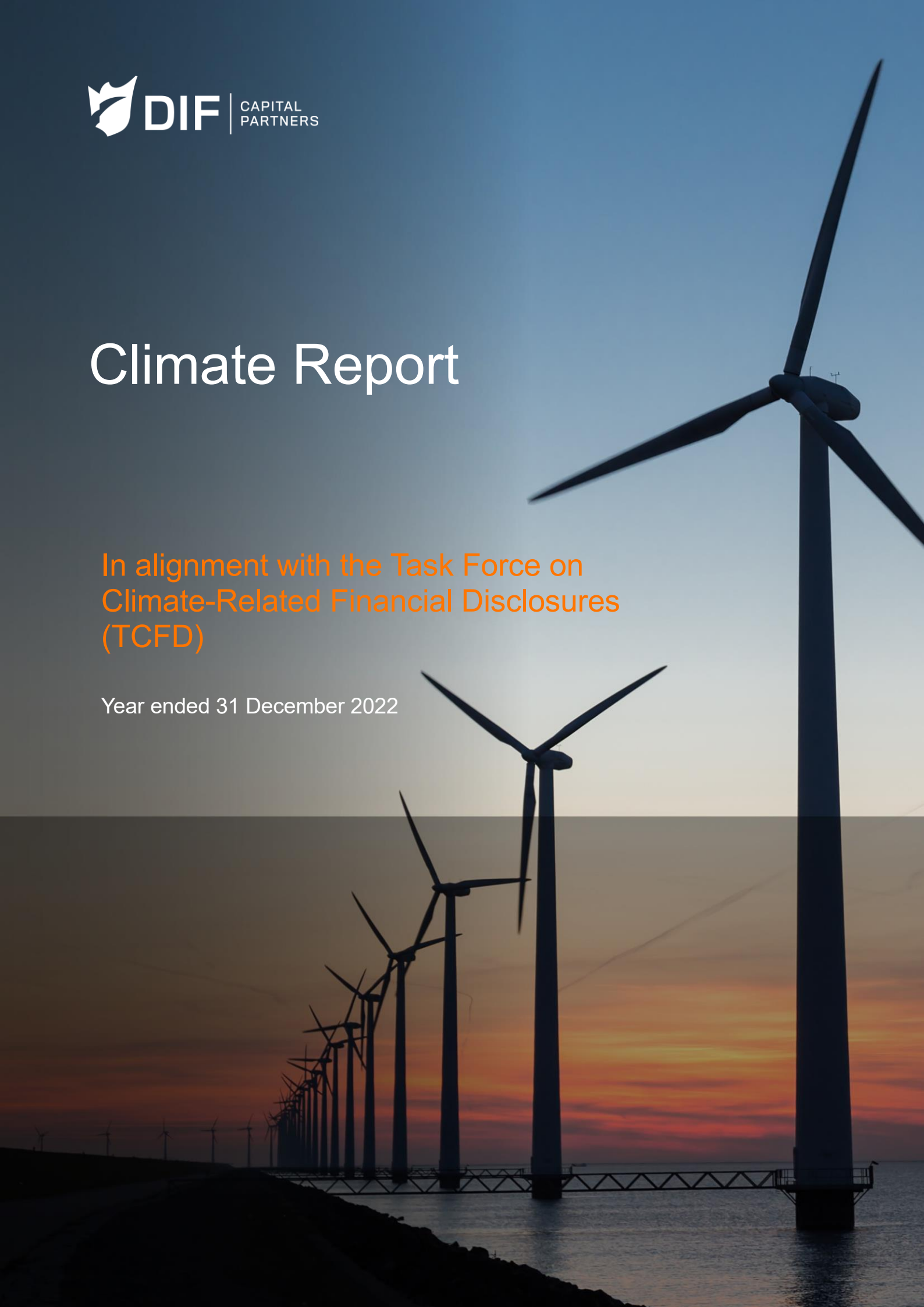


Climate Report

In alignment with the Task Force on
Climate-Related Financial Disclosures
(TCFD)

Year ended 31 December 2022



Welcome from Deputy CEO Gijs Voskuyl and Head of Value Creation Angela Roshier

DIF Management B.V. (DIF) is pleased to publish its first stand-alone Task Force on Climate-related Financial Disclosures (TCFD)-aligned Climate Report. As a signatory to the UN Principles for Responsible Investing (PRI) since 2011, DIF is committed to integrating the full range of environmental, social and governance (ESG) factors into decision-making, including the risks and opportunities of climate change.



Managing the risks of climate change to infrastructure and identifying opportunities to develop new, climate-resilient infrastructure are crucial elements to DIF's overall objective: forming capital to build sustainable infrastructure.

This report summarises DIF's approach to managing climate-related risks and opportunities within the firm's operations and activities as a Fund Manager.

In response to regulatory developments for climate disclosures and industry initiatives such as the Institutional Investors Group on Climate Change (IIGCC), Net Zero Asset Owners Alliance (NZAOA) initiative, and others, the asset management sector is becoming more granular and specific about how we consider climate-related physical and transition climate-related risks and opportunities. DIF is no exception.

For the first time, we report on our commitments as Net Zero Asset Managers (NZAM) initiative member. As we develop the DIF Net Zero aligned Climate Action Plan, we are offsetting our operational greenhouse gas (GHG) footprint for 2022 to continue operating as a carbon-neutral fund manager.

DIF is committed to continuously improving our governance, strategy, risk management and disclosure practices on climate change and the risks and opportunities it brings to our business. The following pages outline DIF's approach to managing climate-related risks and opportunities in our mission to deliver returns responsibly.

Gijs Voskuyl

A handwritten signature in blue ink, appearing to be 'G. Voskuyl'.

Deputy CEO, DIF Capital Partners

Angela Roshier

A handwritten signature in blue ink, appearing to be 'Angela Roshier'.

Head Value Creation, DIF Capital Partners

Introduction

DIF Management B.V. (the “Manager” or “DIF”) is a global infrastructure-focused investment management firm with ca. EUR 16 billion of assets under management (“AUM”) as of June 2023. DIF is headquartered in Schiphol, the Netherlands, with further offices in Frankfurt, Helsinki, London, Luxembourg, Madrid, New York, Paris, Santiago, Sydney, and Toronto. The Manager believes it has built a high-quality team and organisation and established itself as a leading infrastructure investment management firm with a strong track record. The current leadership team of DIF has been responsible for the successful growth and development of the firm since its inception. With a team of over 225 professionals in 11 offices, DIF offers a unique market approach combining global presence with the benefits of strong local networks and investment capabilities.

DIF manages two distinct infrastructure equity investment strategies comprising the Traditional DIF Funds and the CIF Funds, in addition to Co-investment vehicles and the Dutch Climate Action Fund (“DCAF”). Traditional DIF Funds (“TDF”) generally target high-quality infrastructure assets that generate long-term, predictable, and typically inflation-linked cashflows. These include companies in the energy transition, renewables and utilities sectors, public-private partnerships and concessions. CIF funds generally target infrastructure investments in small to mid-sized companies typically active in the digital, energy transition, and sustainable transportation sectors, with contracted revenue streams that are typically shorter than the asset’s economic life, resulting in meaningful re-contracting and/or renewal risk. These income streams are typically contracted with corporate counterparties instead of (quasi) government or institutional counterparties. Relative to the assets in TDF, the CIF Funds will have greater exposure to market and residual value risk, resulting in a higher overall risk profile and more scope for upside potential.

As a fund manager focused on building sustainable infrastructure for people, businesses, and investors, DIF understands the critical role that private infrastructure investors play in the transition to a low-carbon and climate-resilient future through the building, owning and managing the infrastructure that will serve communities sustainably for decades to come. DIF also believes environmental, social, and governance (ESG) elements can affect the performance of investments. DIF, therefore, incorporates ESG factors into the Manager’s investment strategy and risk management framework. In this context, the risk framework identifies sustainability risks, including risks associated with climate change.

Infrastructure investments require an analysis of value and risks over an extended timeframe, and as such, DIF’s investment strategies are intrinsically focused on delivering sustainable returns. The identification and management of ESG factors, and specifically the impact of climate change, is an integral part of the investment cycle, including the investment decision-making process and the stewardship of the assets during the period of ownership. DIF believes that improving ESG performance contributes to creating long-term value. DIF became a signatory of the United Nations Principles for Responsible Investment (UNPRI) in 2011.

Climate change poses both risks and opportunities to infrastructure investments and investors. For example, climate change may lead to physical risks (e.g. flooding or wildfires) for certain investments and transition risks (e.g. lower divestment values or higher operating costs for high-emitting companies) for other investments. Equally, climate change presents opportunities, for example, building out the electrical infrastructure needed to support the decarbonisation of transportation and financing the build-out of district heating or geothermal heating systems. Fund managers who better manage climate-related risks and opportunities in their approaches and portfolios will create long-term risk protection and value enhancement for their investors.

This document aims to inform all stakeholders on DIF’s strategic response to climate change, how DIF identifies and actively manages climate-related risks for individual assets, and how DIF creates value from climate-related opportunities. The report, organised around the four pillars of the Task Force on Climate-Related Financial Disclosures (“TCFD”) framework, describes how DIF incorporates consideration of climate-related risks and opportunities through the core business elements of Governance, Strategy, Risk Management, and Disclosure. It also summarises DIF’s 2022 Carbon Footprint and relevant climate-related Metrics and Targets.

Governance

Board oversight of climate-related risks and opportunities

DIF's Executive Committee ("ExCo") has formal oversight and responsibility for the firm's and Funds' climate strategy. This strategy and the risks and opportunities presented by climate change are outlined in the "ESG Policy", which can be found on the DIF website here: [DIF ESG](#). DIF's ExCo has delegated authority to the ESG Committee, Investment Committee(s), and Portfolio Performance Committee to manage various climate-related topics, as described below.

ExCo

Responsibilities	The ExCo is responsible for key strategic decisions, and given DIF's focus on long-term infrastructure investments, ESG considerations are an integral part of this responsibility.
-------------------------	---

Key members	CEO Deputy CEO CIO CRO CFO
--------------------	------------------------------------

DIF considers climate risk as part of the DIF risk framework, in which climate risk has been included as a sustainability risk. Every quarter, the ExCo takes on the role of Risk & Compliance Committee ("RCC"). This Committee governs the implementation of the Risk Management and Compliance frameworks, acts as guardian of DIF's risk profile and DIF's risk appetite statement, and is responsible for ensuring DIF's risk and compliance framework is up to date. The Risk Management Framework (see [Risk Management](#) section) includes processes to identify climate-related physical and transition risks.

ESG Committee

Responsibilities	The ESG Committee oversees ESG matters, including climate-related topics.
-------------------------	---

Key members	CEO Deputy CEO CIO CRO CFO Head of Value Creation Head of ESG
--------------------	---

The ESG Committee is responsible for review and approval of the ESG Policy and DIF's approach to climate strategy; it provides advice on investment opportunities with significant climate risks, monitors the implementation of the ESG Strategy and ESG Policy as reported by the ESG Team, and reviews and approves external climate-related communication prepared by the ESG Team. This includes TCFD reporting and the firm's Net Zero commitments. The ESG Committee meets every quarter and more frequently as needed.

Investment Committee(s) ("IC")

Responsibilities	An Investment Committee is responsible for approving (or declining) any financial commitments at the Fund level, which may include investment proposals, follow-on investments and proposals to sell a position.
-------------------------	--

Key members	CEO Fund Head CIO CRO Head of Value Creation Other key members as needed
--------------------	--

Respective ICs convene on an as-and-when-needed basis. The investment proposals considered by an IC include a dedicated section on ESG which will cover considerations, findings, conclusions, and justifications, where relevant, of climate-related risks and opportunities. This may include details of any physical or transition risks identified during the investment screening process that are flagged as medium or high risk, as well as identified mitigations to these risks, if appropriate. Additionally, the Net Zero potential of investment opportunities is assessed at IC. See the section on [Processes for identifying and managing climate-related risks: Pre-investment](#) for more detail.

Portfolio Performance Committee(s) ("PPC")

Responsibilities	The Portfolio Performance Committee (PPC) provides multidisciplinary governance about overall fund performance and objectives.
-------------------------	--

Key members	CEO CIO CFO CRO Fund Head Head of Value Creation Other key members as needed
--------------------	--

The PPC's scope is fund-level and investment-specific, and climate-related risks and opportunities can be discussed to the extent that they are considered material to the Fund. This may include, for example, the development of decarbonisation strategies, or if a large investment within a specific fund is at risk of becoming a "stranded" asset, this may be a subject of discussion at the PPC.

Consideration of climate-related topics in decision making

As a fund manager focused on infrastructure, DIF's strategy intrinsically focuses on delivering long-term sustainable returns. Our purpose is: "to make a positive impact on the communities and in the environments that we, and our investments, operate in whilst delivering strong financial returns to our investors and providing a fulfilling working environment for our employees". DIF integrates sustainability risks (including climate risk) into the investment decision-making process. DIF's ESG strategy is aligned with its overall mission and strategy of offering access to high-quality infrastructure assets with stable cash flows that deliver sustainable returns. DIF believes that sustainability risks (including climate risk) are integral to our ongoing commitment to managing climate risks and opportunities. These commitments are covered in our ['ESG Policy'](#) as available on our website.

DIF's risk management framework includes climate risk as part of sustainability risk, and the topic regularly features on the agenda of both the ExCo meetings and the ESG Committee. Climate risks and opportunities are regularly considered in strategic and investment-level decision-making across the firm.

The ExCo oversees and signs off the fund's investment strategy for all types of funds (TDF, CIF, DCAF, and Co-investments). The investment remits of DIF's latest Funds (DIF VII and CIF III) articulate an alignment to energy transition opportunities, while DIF VII specifically aligns with renewable energy generation technologies. DIF's Dutch Climate Action Fund (DCAF) also targets investments in the energy transition sector.

For SFDR [Article 8 funds](#) (DCAF, DIF VII, and CIF III), DIF identifies a selection of UN Sustainable Development Goals (SDGs) to substantiate the environmental and social characteristics the Fund's investments promote, including, but not limited to, sustainable cities and communities (SDG 11) and climate action (SDG 13).

The Origination team is responsible for implementing the ESG policy during the origination phase covering the investment decision-making process. This includes screening new opportunities for ESG risks and opportunities, ensuring the potential investment complies with the exclusion policy, conducting proper ESG due diligence, the inclusion of ESG matters in contracts with business partners where appropriate, and ensuring that ESG action items are handed over to the value creation team for management and monitoring during the post-investment phase.

Within the origination process, the Investment Committee advises on ESG considerations as part of the investment decision process. Our ESG Screening Tool for new investment opportunities has been developed to identify, at an early stage, material ESG issues, including climate change risks (physical risks and transition risks), that could affect a decision on a potential new investment. The tool ensures ESG due diligence objectives are defined if needed, and these topics are discussed with the ESG and Risk Management teams. The outcomes of the due diligence and discussions are reported in the IC paper. ESG risks are included under the Risk section of the IC paper and discussed in that context and are part of the analysis and decision-making. Post-investment, the Value Creation team will implement value creation plans that can include climate-related topics.

The PPC considers a range of risks and opportunities, including climate-related topics and investment decarbonisation (to the extent that these are material to each Fund). Additionally, fund optimisation and divestment strategies incorporate material climate-related topics such as the strategic repurposing of assets that do not align with Net Zero targets, consideration of divestment timing, and optimisation of investments at risk of becoming "stranded" assets.

Role of management in assessing and managing climate-related risks and opportunities

Roles and responsibilities of climate risk management

ESG Team

The ESG team develops and maintains tools and procedures for identifying and assessing climate-related risks and opportunities and ensures that additional due diligence is performed on investment opportunities exposed to high climate-related risks. The team also supports the Value Creation team in developing decarbonisation plans and managing climate-related risks for investments during the post-investment phase.

The ESG team is responsible for organising ESG Committee meetings and monitoring climate-related risks. It will notify the ESG Committee at quarterly meetings or more frequently if significant climate risks arise. The ESG team provides an annual overview of the climate risk exposure of the portfolio to the ESG Committee and reports on progress on Net Zero as part of quarterly meetings. In addition, the ESG Team is responsible for communicating the Firm's Net Zero commitments and climate-related data on portfolio companies annually.

Investment team

An investment team is formed for each investment opportunity that is considered, led by the assigned Origination lead. The Origination lead completes climate risk screening early in the process as part of transaction pre-approval. The climate risk screening results in an overall classification of the level of physical risk (minimal, low, medium, or high) and transition risk (opportunity, minimal, low, medium, or high risk). Please refer to the [Risk Management](#) section, where the pre-investment process is described in more detail. The screening also provides due diligence recommendations where relevant. The Transaction Pre-Approval Form is signed off by the Origination lead, the Chief Investment Officer (CIO), and the Product Head of a Fund.

The Investment team completes extensive due diligence as part of their investment analysis, including diligence of climate risks where relevant. The results of this due diligence will be presented as part of the investment analysis in the IC paper, including suggestions to manage and mitigate risks. This may also lead to changes to the proposed investment structure or investment documentation. The value creation plan implemented post-closing also reflects the due diligence outcomes.

Value Creation team

For each investment, a dedicated person is assigned responsibility and accountability for managing that individual investment. This person becomes part of the VC team, which works with the outcome of climate-related risks and opportunities identified in due diligence from the pre-investment phase to incorporate them into the Value Creation plans. The team engages with the respective portfolio companies on the execution of value creation plans, ensuring relevant climate-related actions are implemented over the life of the investment and proposing amendments to value creation plans. The VC team provides analysis to the PPC on asset performance and progress against the value creation plan, including decarbonisation plans.

DIF's commitment as a Fund Manager

DIF has an ongoing commitment to being a responsible investor and demonstrates commitment and acknowledgement of climate risk impacts via its membership and commitments to several industry bodies and other targets:

IIGCC: as a member of the Institutional Investors Group on Climate Change ("IIGCC"), which advocates climate change, DIF works towards Net Zero solutions for the infrastructure investment market. Additionally, DIF works with the IIGCC to contribute to the development of infrastructure sector-specific guidance in Net Zero implementation and share best practices with industry peers as part of a working group.

UNPRI: being a signatory to the United Nations Principles of Responsible Investment ("UNPRI"), DIF is committed to being a responsible manager of investment funds and will work to continually enhance its effectiveness in incorporating ESG topics into its investment analysis and decision-making processes.

Paris Agreement: the goal of Net Zero greenhouse gas emissions by 2050, in line with global efforts as a result of the Paris Agreement to have Net Zero emissions by 2050, or sooner.

NZAM: DIF has committed to being a Net Zero investor by 2050 or sooner as part of the Net Zero Asset Manager ("NZAM") Initiative. NZAM is a commitment made by a group of leading asset management firms to support the goal of achieving Net Zero greenhouse gas emissions by 2050 or sooner; (70% of AuM (assets under management) to be "Aligning", "Aligned" or "Net Zero" by 2030; 100% of AuM to be "Aligned" or Net Zero by 2040 – for a further explanation, please refer to the ["Metrics and Targets"](#) section). The IIGCC and the UNPRI lead the initiative.

Strategy

As a long-term investor managing multiple infrastructure funds, DIF recognises climate change as a significant risk and opportunity. Climate-related risks potentially impact DIF's Funds' investments at different stages of the investment life cycle. These can largely be categorised as either climate-related physical risks (chronic and acute risks posed by increased climate hazards on individual investments/entities) or transition risks and opportunities (risks and opportunities posed by the transition to a low carbon economy on individual investments/entities).

DIF's strategic approach to managing climate risks and opportunities includes the following:

- Quantifying and disclosing Manager emissions, Scope 1, 2 and 3
- Quantifying and disclosing portfolio emissions (Scope 1 and 2, and 3 over time as data quality improves)
- Screening new investments for physical and transition climate risk
- Engaging with portfolio companies to implement and/or enhance a credible decarbonisation plan aligned with the goal of Net Zero by 2050
- Performing a climate risk assessment across all assets on an annual basis
- Managing climate-related risks within the DIF Value Creation Framework

Identifying climate-related risks and opportunities

Defining timeframes

Defining uniform timeframes for short, medium and long-term risks can be challenging across diversified portfolios. Considerations change over time as the investments move through the investment cycle and external factors develop. Some considerations are:

- Infrastructure assets typically have very long asset lives. This means that a significant portion of their value is related to future performance. As fund lives may be significantly shorter, this value is captured in the asset's valuation (updated at least annually, but more frequently if required) and divestment values. As the market appetite for assets with significant negative climate impact drops, the value captured during divestment can also drop. Vice versa, as the market appetite for investments with a positive impact on climate increases, the value at the time of divestment may increase. As a result, long-term climate risks and opportunities may already affect short-term fund returns.
- Infrastructure assets associated with significant climate-related risks can potentially be transformed or repurposed to align with the transition to a low-carbon economy and/or become climate resilient. Therefore assessment of short, medium and long-term risks is likely to change over time for such assets, impacting strategic decisions such as divestment considerations.
- Finally, multiple assets within the funds' portfolios take significant time to develop and construct. Existing assets are not displaced overnight, which means that most of the significant transition risks will be associated with the long term. In developing and constructing new assets with (significant) climate impact, current legal frameworks and/or market conditions may not be representative once assets become operational.

Taking the above into account, short, medium and long-term horizons are assessed in the context of climate-related risks and opportunities as follows, in alignment with the time horizons identified in the Net Zero Investment Framework (NZIF):

- Short term – up to 2030: considering the typical holding period and the general characteristics of DIF's Funds' investments overall, arguably, the short term is captured by the holding period as this would be the most significant timeframe during which climate risks can actively be monitored, managed and mitigated. Investments in more mature funds are expected to be divested during this term, depending on the fund maturity date.
- Medium term – 2030 to 2040: during this period, most investments will likely be sold by the respective funds. DIF's Funds are exposed to potential physical and transition risks for the divestment values of their investments. This may be due to physical risks that are more likely to materialise in the longer term. Regarding transition risk, this relates to a potential discount in divestment values for investments at risk of becoming stranded assets over the longer term.
- Long term – 2040 to 2050: considered the post-divestment period, which would not be expected to materially impact DIF's Funds (due to the holding period). However, this is notably when most material climate-related risks and opportunities are most likely to manifest themselves for the underlying assets.

Determining relevant climate-related risks and opportunities

As investor expectations regarding climate change grow over time, DIF needs to demonstrate its capability in managing climate-related risks and seizing the opportunities provided by the global energy transition. In assessing sector vulnerabilities, both transition and physical risks have been determined in a structured approach.

Transition risks and opportunities

Transition risk depends on the mix and type of assets included in the portfolio. Individual fund portfolios may include assets with a high transition risk due to direct or indirect greenhouse gas (GHG) emissions (e.g., midstream oil & gas or fossil-based power generation). At the other end of the spectrum, individual fund portfolios may also include assets that are an opportunity (e.g. climate solutions such as renewable generation, wastewater treatment, and public transportation systems).

Transition risks such as new regulations may lead to additional costs for our investments, or a shift in market preferences may lead to reduced revenue for our volume-based investments.

As part of its assessment of transition risks and opportunities, DIF considers the impact of potential changes of four distinct elements impacting its investments:

- policy and legal framework: e.g. carbon taxes, policies aimed at increasing electrification of vehicles
- technology: e.g. increased development of cleantech solutions, carbon capture systems
- market dynamics: e.g. increased demand for clean energy, increased demand for rail transport, lower demand for oil
- reputational trends: e.g. decreased investor (or lender) demand for high-emitting investments, increased investor (or lender) demand for energy transition investments

Physical risks and opportunities

Physical risk depends on the vulnerability of the types of assets included in the Funds' portfolios and the hazard level linked to the geographical location of the asset. For example, a toll road in Alabama (US) near the Gulf of Mexico may be exposed to significant risk due to storms/cyclones, while it will be immaterial for a road in the Netherlands.

Similarly, there is a difference between the vulnerability of assets, for example, where a fibre network is at lower risk as it is underground, compared to data centres managed by the same operator. As infrastructure investments have a physical footprint, completely avoiding or eliminating physical climate risk is unrealistic. Increases in physical risks are expected to impact investments even in case the risks do not materialise, as the cost of insuring against these risks will increase.

DIF considers chronic and acute physical risks in assessing physical risk for investment opportunities.

- Acute risks include extreme weather events, which may already be happening now and for which the severity and the frequency by which they are expected to occur in the future may change due to climate change (e.g. flooding, cyclones, hurricanes, heat waves, wildfires).
- Chronic risks generally play out over longer time scales (e.g. sustained higher temperatures, sea level rise, changing precipitation patterns) and are unlikely to be material in the short term. In the medium term, infrastructure assets such as power plants and data centres may experience increased cooling demand due to gradual temperature increases

DIF approach to assessing and managing climate risk exposure

DIF started assessing climate risks at the start of the investment assessment process in 2020. Climate Change Heat Maps (CCHMs) were developed with an external consultant, providing physical risk and transition risk classifications at the sector level. These CCHMs provided an overview of climate risk exposure as part of 2020, 2021 and 2022 ESG reports. The CCHMs were built on the ClimateWise framework released in 2019. Recently, DIF has developed a new Climate Risk Tool (CRT) based on climate scenarios and data on Transition and Physical risks. The respective methodology for both climate-related risk categories is discussed below.

Transition risk

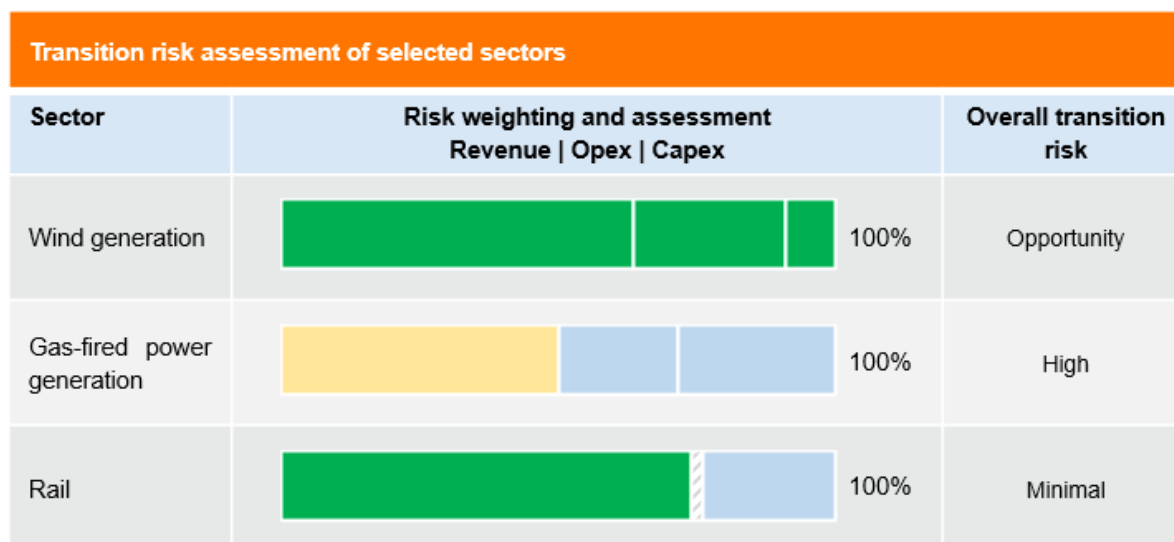
DIF's CRT transition risk is measured by analysing the impact of low carbon transition scenarios on the financial drivers of the sectors within DIF's funds' investment remit. Historically, the CCHMs covered a Nationally Determined Contribution scenario and a 2-degree scenario from the IEA's World Energy Outlook (in line with the ClimateWise framework). DIF has developed the CRT based on the UNPRI's Inevitable Policy Response 1.5°C Required Policy scenario. DIF has selected this scenario as a reference for measuring transition risk, given this scenario assumes a quick transition to a lower carbon economy. As such, this scenario shows the most severe impact of this transition on the economy and investments (e.g. through more policy changes, technological developments and quicker changing demand patterns), and therefore suitable for identifying transition risks for our investments.

The scenarios identify how transition risks impact financial value drivers in specific sectors and regions. Where revenue and costs are impacted by market, technology, legal and policy risks¹ and potential capital and operating expenditure increases, these risks are measured on a 2030 and 2040 timescale. The CRT now covers all sectors and regions in the portfolio.

¹ Note that Reputation risk is not explicitly covered as a separate driver in the transition risk approach, this is mainly due to a lack of distinct value drivers in low carbon transition scenarios which are not otherwise covered by Market risk

DIF has assessed the combined impact of these elements on revenues, operational expenditure (“opex”), and capital expenditure (“capex”) separately for each sector. Per sector, the weight of each variable (revenues, opex, and capex) has been determined using expert opinion. The impact of the energy transition on the selected variables has been determined using data from a third party (Inevitable Policy Response Value Drivers Database). The combined weight and impact of the selected variables lead to an overall score, determining whether energy transition for the sector is classified as a minimal/low/medium/high risk or as an opportunity. Please see below how this approach has been applied to three selected sectors.

Please see below a qualitative explanation of the figure above per sector. Please note that these classifications are generic for sectors, and investment-specific mitigants may lead to an assessment that, for that specific investment, the risk is sufficiently mitigated.



Legend: ■ Opportunity ■ Minimal risk ■ Low risk ■ Medium risk ■ High risk ▨ Not relevant
 Relative weighting of revenue, opex and capex variables

Wind generation:

- Revenue has been identified as the key driver and as an opportunity, given demand is expected to materially increase. In the long run, prices may be under pressure due to lower-levelized costs of energy, but overall revenue is considered an opportunity
- Opex is considered an opportunity because wind generation is lower cost than alternatives (fossil and nuclear)
- Capex is expected to have a limited impact but slightly positive because of expected continued cost reductions

Gas-fired power generation:

- Revenues have been identified as a key driver and considered high risk due to decreased demand for baseload fossil fuel generated electricity and prices expected to be under pressure due to lower cost renewable energy coming online
- Opex is considered a driver and a medium risk due to carbon pricing likely negatively impacting operating costs
- Capex is considered a driver and a medium risk due to potential capital requirements to implement carbon capture technology or a switch to a cleaner fuel (e.g. hydrogen); if successfully implemented, these measures could create an opportunity for the investment.

Rail:

- Revenues: For rail, revenues are expected to be the main driver and an opportunity, as demand for clean transport methods is expected to increase.
- Opex: Not identified as a key driver
- Capex: Identified as a minor driver and as a medium risk, as additional costs may be imposed to further improve the energy efficiency of equipment

Physical risk

In DIF’s CRT, physical risk is measured by analysing the impact of natural hazards caused by climate change on the sectors within DIF’s investable universe. This analysis combines the location-based hazard exposure over time from climate change scenarios with the specific vulnerability or sensitivity of sectors to these hazards. The underlying scenario used in the DIF CRT for physical risk is the Representative Concentration Pathway 8.5 (RCP 8.5) by the IPCC. DIF has selected this scenario as a reference for

physical risk, as it is the scenario with the most extreme climate change (4.3 degrees warming by 2100). As such, this scenario shows the most severe impact of climate change on physical risks and is best suitable for identifying physical risks for our investments. The divergence between RCP 4.5 and 8.5 scenarios from the IPCC in terms of hazard exposure in the short to medium term is limited. Therefore DIF determined RCP 8.5 to be the most prudent approach without significantly overestimating risk.

Hazard exposure data covers acute physical risks (coastal flood, river flood, heat/cold stress, tropical storms and cyclones) and chronic physical risk (drought, water stress and land erosion). The data points provided cover four time periods: Current; up to 2040; 2041-2070; and (2071-2100)², and are available at different geographic scales: continent, country, region/province/state and 50 x 50 km grid. DIF procured the data points from Climate Risk Services, who compiled the dataset based on the latest available academic research.

Sector-level sensitivity data has been developed across the hazards based on the pre-existing heat map data and other relevant sources by the DIF team and validated by Climate Risk Services. Based on the combination of investment-specific hazard exposure (location-based) and sensitivity (sector-based), risk levels for the respective hazards are determined for each investment in the portfolio. The risk levels for the respective hazards are aggregated to an overall physical risk exposure per investment, where they are classified as High Physical Risk, Medium Physical Risk, Low Physical Risk, and Minimal Physical Risk.

In total, ten different physical risks have been identified. DIF uses external data to determine the hazard level (exposure) of an investment opportunity to these risks based on the location of the investment opportunity. The vulnerability of assets in different sectors in relation to the various physical risks has been assessed using external data when available and expert opinion when not. The combination of the hazard (location specific) and the vulnerability (sector specific) leads to an overall physical risk determination of an investment opportunity.

Please see below an overview of the vulnerability assessment of three selected sectors for each of the ten identified physical risks:

Physical risk assessment of selected sectors										
Sector	Coastal Flooding	River Flooding	Extreme Heat	Extreme Cold	Wildfire	Water Scarcity	Draught	Erosion	Cyclone	Storm
Wind generation	Medium risk	Medium risk	Low risk	Medium risk	Low risk	Low risk	Low risk	Low risk	High risk	High risk
Gas-fired power generation	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	High risk	Low risk	Low risk	Medium risk	Low risk
Rail	High risk	High risk	High risk	Medium risk	Medium risk	Low risk	Low risk	Low risk	Medium risk	Low risk

Legend: ■ Minimal risk ■ Low risk ■ Medium risk ■ High risk

If an investment is in a location with medium/high exposure to a certain risk and is in a sector that is relatively vulnerable to that risk, that risk will be classified as medium/high risk.

Impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning

Implications of climate risk on strategy and processes

DIF has updated its strategy and processes in response to climate risk and opportunities. At the asset management level, investments are expected to develop Net Zero aligned business plans and set up greenhouse gas accounting and reporting processes. Long-term Value Creation Plans for each asset consider transition risks. At the Manager level, the development of future fund mandates considers the policy, legal and technology transition risks in the investment thesis.

As governments have increasingly adopted Net Zero targets in recent years, the market outlook for energy-related sectors has rapidly changed. Our investment strategy has been responding to this change by, for example, developing a medium to long-term

² Please note that the timelines for measuring physical risk exposure take into account an extended period to better assess trends, as such timelines deviate from the short, medium and long term definition for climate risk that DIF applies to assess its climate risk.

strategy that includes business diversification into other energy sectors and lower carbon infrastructure at the individual investment level.

In addition to assessing the impact of climate change on the Manager and its strategy in the long term, DIF also addresses the potential impact of climate-related events on its daily operations in the shorter term. A Business Continuity Plan (“BCP”) has been prepared for DIF and its subsidiaries. The purpose of the BCP is to ensure DIF’s operational resilience and continuity of operations during and after a business disruption. The identified business disruption events include threats to the availability of office facilities and resources, which may be driven by climate-specific events, for example, the destruction of work premises due to fire or flooding.

Impact on strategy according to fund type

DIF considers energy transition the key element to impact the investment strategy. Transition risks and opportunities will impact entire sectors, while physical risks are expected to be more location specific. For all new TDF and CIF Funds, DIF identifies a selection of UN Sustainable Development Goals (SDGs) to substantiate the environmental and social characteristics that the most recently raised funds in each business line promote through their investments. The investment remit of DIF’s latest traditional DIF Fund (DIF VII) demonstrates a commitment to investment into renewable energy generation technologies and those in the energy transition sectors to the extent that these have a suitable risk profile, recognising the opportunities presented by such investments. Similarly, the CIF funds currently target energy transition sectors (amongst other areas).

UN Sustainable Development Goals promoted by DIF’s Funds



Climate-related risks and opportunities are also integral to the objective of DIF’s Dutch Climate Action Fund (“DCAF”), which is to invest in project companies that promote environmental and/or social characteristics which contribute to reaching National GHG emissions reduction targets in the Netherlands by either reducing, removing or avoiding GHG emissions. Target investments are in the energy transition sector.

Article 8 funds

The Manager’s three latest investment funds, DCAF, DIF VII and CIF III, are classified as Article 8 under the EU’s Sustainable Finance Disclosure Regulation (SFDR), which means they promote environmental and/or social characteristics. The SFDR requires the Manager to provide specific disclosures for the Fund as part of pre-contractual information (PPM) and as part of periodic disclosures (Fund Annual Report). DIF’s identification and management of climate-related risks and opportunities via the wider climate risk management approach contribute to the disclosures that are required for such purposes. This includes the ESG Screening Tool, used to identify and monitor climate-related risks, and disclosure of the annual ESG Path results, which assesses Climate Resilience.

The resilience of DIF’s Funds’ investment strategies to climate-related risks

In assessing the resilience of the Funds’ investment strategies in relation to the approach to climate-related risks, DIF has considered two types of scenarios. The scenario used is the UNPRI Inevitable Policy Response Scenario, where climate change is limited to a 1.5-degree Celsius temperature increase by the end of the century compared to pre-industrial levels. Effectively, 1.5-degree scenarios are aligned with the objective of the Paris Agreement, and including such a scenario is in line with the guidance provided by TCFD. The second type of scenario is a failed transition scenario where climate change is not halted, and emissions continue to rise throughout the 21st century. This scenario was developed by the IPCC as Representative Concentration Pathway 8.5 (RCP 8.5) and would result in an average projected temperature increase of 3.7 degrees Celsius by the end of the century. The first scenario is used to assess resilience to climate-related transition risks. In contrast, the second type of scenario is mainly used to assess resilience to climate-related physical risks.

Implications of a transition to a low carbon economy – 1.5-degree scenario

In assessing the resilience of DIF's strategy to a transition to a low carbon economy, both the IEA Net Zero scenario and the UNPRI Inevitable Policy Response 1.5°C Required Policy Scenario have been considered for the short (<2030) and medium-term (2030 to 2040). Both these scenarios contain transition risk and opportunity value drivers that will impact the investments DIF makes as a fund manager. By impacting revenues and costs at the investment level, these value drivers will impact asset valuation, which in turn impacts fund performance. Below is a discussion of the implications for the current investments in the portfolio and potential future investments based on the current fund mandates.

Current portfolio

Overall, the current DIF-managed portfolios contain a relatively large share of renewable energy and other energy transition assets, which only have a limited exposure to transition risk (and even have an opportunity). Please refer to metrics and targets for current transition risk exposure. Nevertheless, the portfolio includes a few investments exposed to medium to high transition risks (mainly linked to fossil fuel exposure). While in a 1.5-degree scenario, there is a higher likelihood of transition risks manifesting for these investments, these risks are not expected to materially influence operational performance during the holding period. Therefore the main focus will be on realising a good divestment for these investments, noting that these may have already been factored into the asset's valuation at acquisition. Where relevant, DIF is already actively working with investments to mitigate transition risks and reposition assets to better align with the transition to a low-carbon economy, e.g. by exploring opportunities to convert fossil fuel infrastructure to hydrogen infrastructure. As the number of investments with elevated transition risk is relatively limited, the transition to a low-carbon economy is unlikely to have a material impact on the current DIF-managed portfolios.

Prospective investments

The analysis performed on the IEA Net Zero scenario mainly highlighted the substantial investment opportunities provided by the transition to a low-carbon economy. This analysis has partly influenced the investment strategy and mandate for our latest funds, which strongly focus on renewable energy and/or energy transition investments. In a 1.5-degree scenario, Policy, Market and Technology drivers would be favourable for these types of investment, and this would likely result in more investment opportunities being available within the current fund mandates.

Implications of a failed transition – RCP 8.5 scenario

In assessing the resilience of DIF's strategy to a failed transition or a worst-case climate change, DIF has considered the RCP 8.5 scenario for the short and medium term. This represents a high-emissions pathway where greenhouse gas concentrations continue to rise rapidly throughout the 21st century, leading to a substantial increase in global temperatures and severe climate change impacts. The RCP 8.5 scenario forms the basis of subsequent climate hazard modelling that DIF uses as part of the Physical Risk assessment. These climate hazards may potentially impact DIF investments by increasing costs (e.g. direct damage, increasing insurance premia, and/or costs of adaptation measures) or reducing revenues (e.g. reduced power output). This may ultimately impact valuations and, therefore, fund performance. Again, it is important to distinguish between the current portfolios and prospective investments in discussing implications.

Current portfolio

Overall, DIF has not identified a high exposure to physical risks for most investments in the current DIF-managed portfolios. Additionally, the manifestation of a material change in physical risks is expected to occur in a timeframe longer than our hold period, and even exceeds the typical investment horizon considered by potential buyers. As such, the analysis has not identified a material impact the financial performance of our current portfolio should this scenario materialise. Effectively, RCP 8.5 assumes a lack of policy action and market development in relation to the energy transition, which could hurt the business case for energy transition investments. As such, the main impact on our portfolio of a failed transition would likely be that fewer opportunities can be captured through our investments in renewable energy and energy transition assets.

Prospective investments

DIF could acquire investments which are exposed to significant physical risks. This risk was identified by Risk Management and the ExCo in 2022, given climate risk screening of new investment opportunities did not include location-specific data then. In response, our climate risk screening has been improved to also consider location-specific data. Please refer to the [Risk Management](#) section for a more detailed description of this screening process. With this update of the physical risk approach, our physical risk screening has significantly improved, reducing the risk of adding new investments to the portfolio with a high physical risk exposure. Additionally, a severe climate change scenario may also result in investment opportunities as infrastructure solutions may be needed to adapt societies to the impacts of climate change.

Risk Management

Processes for identifying and managing climate-related risks

The identification of climate risks takes place both at the pre-investment and post-investment stages of the investing lifecycle.

Pre-investment

In identifying appropriate sectors for investment, internal experts and/or industry or sector experts are assigned to undertake market analysis. This includes assessing the sector's ESG factors (including climate-related) and may include sector scenario analysis under several energy transition scenarios. Consideration of ESG factors is thus fundamentally embedded into the origination process, from high-level scanning to identifying specific investment opportunities. Once specific investment opportunities are identified, ESG factors are considered part of the origination process to identify risks or opportunities for value creation. The pre-investment process undertaken for prospective investments is as follows:

Investment teams apply the ESG Screening Tool, which includes completing the ESG Screening Checklist and questions on Net Zero potential. The ESG Screening Tool is an interactive tool in which climate-related risks (physical and transition) are identified based on the location and sector of an investment opportunity. Investment teams provide details on the sector and location for the prospective investment and provide answers to additional questions as relevant. Based on these inputs, the Climate Risk screening tool determines an overall risk classification and flags specific climate-related risks for which additional due diligence needs to be performed, if applicable. The ESG Screening Tool outcomes, including the physical and transition risk levels, are recorded in the Transaction Pre-Approval Form, signed off by the CIO, Product Head and the Origination lead.

Conditional on the outcome of the ESG Screening Tool, an ESG Committee meeting may be planned to provide a formal opinion on further pursuing the investment opportunity. The early identification of climate-related risks by investment teams, or the advice of the ESG Committee, may lead to not further pursuing an investment opportunity at an early stage in the investment process.

Additionally, the ESG Screening Tool is used to identify sustainability risks, including climate risk, which need to be covered in more detail in the due diligence ("DD") process. It also provides guidance on ESG Value Creation topics (including decarbonisation, repurposing of assets and strategic positioning for divestment) to follow up in DD. Identifying related value creation levers is crucial in DIF's general value creation process. The scope of DD is defined to encompass an assessment of these identified levers. The focus of the DD process is aligned with the value creation levers, ensuring that the evaluation covers the quantification, prioritisation and sequencing of these levers. This approach enables a comprehensive understanding of the potential wider ESG value creation opportunities associated with the investment, facilitating informed decision-making and the integration of sustainability considerations into the investment strategy.

Where relevant, climate risks and opportunities and decarbonisation value creation opportunities are included in the Investment Committee paper and ultimately discussed by the Investment Committee, who will consider the climate-related elements in their decision-making.

Post-investment

The post-investment identification, assessment and ongoing management of climate-related risks incorporates the following:

- 1. Value creation levers**

Integration of ESG with Value Creation via ongoing monitoring and documenting climate risks, opportunities and decarbonisation plans as part of investment-specific Value Creation plans. The extent to which these are monitored and tracked over the holding period depends on the size and complexity of the asset. Regular formal check-in calls are conducted to assess progress, and climate-related risks and opportunities are expected to be discussed in these forums to the extent that they are material.

- 2. ESG Path engagement**

Climate Resilience is one of the five ESG Focus Areas covered in the annual ESG Path engagement. Through the ESG Path, DIF engages with the majority of the portfolio; this program annually evaluates the current ESG performance of each investment of a Fund and engages with them on a plan to improve ESG performance over time. The ESG Path includes a comprehensive survey of qualitative and quantitative KPIs, such as greenhouse gas (GHG) emissions, energy consumption and Health & Safety statistics, which are analysed and partially reported in the annual ESG report (linked [here](#)). Additionally, as part of DIF's ESG Path, action plans for improving ESG performance are defined for the Funds' Investments. DIF employees on the board of the Funds' Investments

engage with portfolio companies on ESG topics as part of the agenda, including the actions defined in the action plan, and play a direct role in influencing the ESG trajectory of that asset.

3. Net Zero engagement

DIF's Net Zero programme engages assets in relation to DIF's goal of achieving Net Zero emissions by 2050. Each company is encouraged and supported, through the provision of technical resources and templates, to develop and commit, via board approval, to a financially viable and technically feasible carbon reduction programme that is aligned with a goal of Net Zero by 2050. The indicators of progress towards this goal are part of the annual data collection through the ESG Path.

Integration of climate-related risks into DIF's Risk Management Framework

Sustainability risks are considered financial risk in DIF's risk management framework. The DIF risk management framework defines sustainability risk as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potentially material adverse impact on the value of the investment. At the fund level, these risks are managed by conducting due diligence targeted towards environmental, social or governance events or conditions relevant to a fund's investment strategy. Such events may include (but are not limited to) climate change (which can have physical and/or transitional effects); pollution; human rights; health and safety; company/project governance, conduct vs employees and compliance with laws. DIF maintains an ESG Policy, business continuity planning, and a robust governance framework at the manager level.

The DIF risk management framework sets risk appetite and risk limits for identifying and managing sustainability risks pre- and post-investment. Risk Management attends the Investment Committee and provides a risk opinion on potential investments. Where relevant, this risk opinion will cover sustainability risks, including climate-related risks. The Risk Management Framework stipulates the following risk limits:

- Investing funds: no investments made by the fund to show non-compliance on using the ESG Screening Tool for assessment of key sustainability risks;
- For all main equity funds: >90% (of fund committed capital) of investments participate in the ESG Path programme
- At the manager level, maintenance and periodic review of an ESG Policy, business continuity planning and governance framework

Metrics and Targets

DIF has developed a bespoke ESG Path with a focus on the five ESG focus areas most relevant to the sustainable management of our portfolio: (i) Governance, (ii) Safety, (iii) People and communities, (iv) Environment and (v) Climate resilience. As part of the ESG Path, the Manager engages with all its companies and projects to participate in an annual ESG survey to baseline their performance in these five focus areas.

For Article 8 funds, the promotion of environmental and social characteristics will be assessed through pre-defined indicators during the hold period of an investment. The indicators depend on the SDG(s) that an investment contributes to. These indicators will be collected and reported via the DIF ESG Path on an annual basis.

Monitoring Net Zero alignment and climate-related risks and opportunities

DIF considers climate-related elements from a risk management perspective and in the context of monitoring progress on Net Zero. To this end, DIF tracks metrics to measure its climate risk exposure and the Net Zero alignment of the portfolio. These metrics are presented in more detail below, including the methodology underlying the respective metrics.

Net Zero Alignment

In 2021 DIF committed itself to be a Net Zero investor by 2050 or sooner. As a signatory of the Net Zero Asset Managers initiative, DIF has adopted the Net Zero Investment Framework developed by the IIGCC as part of the Paris Aligned Investment Initiative. The Net Zero Investment Framework (NZIF) encompasses various asset classes, including specific guidance on infrastructure relevant to DIF in target setting and tracking Net Zero alignment. Net Zero target setting is covered in a later section.

The framework provides a set of indicators that can be used to classify and track the level of alignment of investments to Net Zero. DIF aims to ensure that investments meet these indicators. For operational assets, if an asset has implemented the first four criteria, it can be considered "Aligning" with a net-zero pathway. Additionally, assets with emissions performance levels consistently at or below the relevant science-based Net Zero intensity pathways for the sector can also be regarded as "Aligning." If the first six criteria outlined in the figure below are met, the asset can be considered "Aligned" with a Net Zero pathway. If the asset meets these indicators and operates at an emission intensity consistent with the "Net Zero" level required for its sector by 2050, it would be classified as "Net Zero" already. For details on DIF's interim targets, please refer to the ["Progression on Net Zero targets"](#) section, later in the Metrics and Targets section.

NZIF Indicators	Aligning	Aligned	Net Zero
1. Long-term goal for the asset to be net zero emissions by 2050 or sooner	✓	✓	✓
2. Disclosure of Scope 1 and 2 emissions, and disclosure of material Scope 3 emissions	✓	✓	✓
3. Short- & medium-term targets for Scope 1, 2 and material Scope 3 emissions	✓	✓	✓
4. Governance / management responsibility for targets / decarbonisation plan	✓	✓	✓
5. Scope 1, 2 and material Scope 3 emissions performance level		✓	✓
6. Credible decarbonisation plan for Scope 1, 2 and material Scope 3 emissions		✓	✓
7. Emissions intensity of the "net zero" level required for its sector in 2050			✓

DIF has integrated the NZIF indicators into its ESG Path engagement survey, completed by most portfolio investments. The ESG Path survey is completed annually and will help to track Net Zero alignment over time. Apart from the formal categories defined by the NZIF, DIF also recognises a "Committed to Aligning" category to track investments that have taken the first step of setting a long-term Net Zero emissions goal. Additionally, investments may be categorised as "Not Aligning" if they do not yet meet the indicators or insufficient data are available to determine alignment. The below table provides the percentage of investments at the portfolio level falling into the respective categories based on fair market value.

Portfolio alignment results for 2022 (measured by % of AUM)

Net Zero	Aligned	Aligning	Committed to Aligning	Not Aligned / Insufficient Data
0.0%	6%	3%	13%	78%

Across the portfolio, the total number of investments considered Aligning or better is still relatively limited, with an AUM share of 9%. These metrics have been included in our annual ESG Path engagement for the first time this year. Even though DIF's Net Zero engagement program only recently started, the current result aligns with sector expectations. An additional share of the portfolio has been classified as Committed to Aligning. As a result, DIF is confident that the overall portfolio alignment will grow in the coming year and beyond. Below are two examples of how DIF works with companies on their Net Zero plans.

Net Zero Case Studies

Alight - Committed to Aligning towards Net Zero

- Alight is a leading Nordic developer of subsidy-free solar projects in which DIF acquired a majority stake with an investment of up to EUR 150 million in November 2022. With the capital raised, Alight is accelerating the buildout of its near-term pipeline of solar projects to transition into an independent power producer.
- Together with DIF, Alight has measured its Scope 1 and 2 and material Scope 3 emissions for 2022. With a commitment to the Paris-aligned goal of Net Zero by 2050, Alight has identified three climate-related objectives in its ESG Action Plan to be completed by 2024: setting science-based carbon reduction targets, conducting a climate change transition risk assessment and a biodiversity assessment.



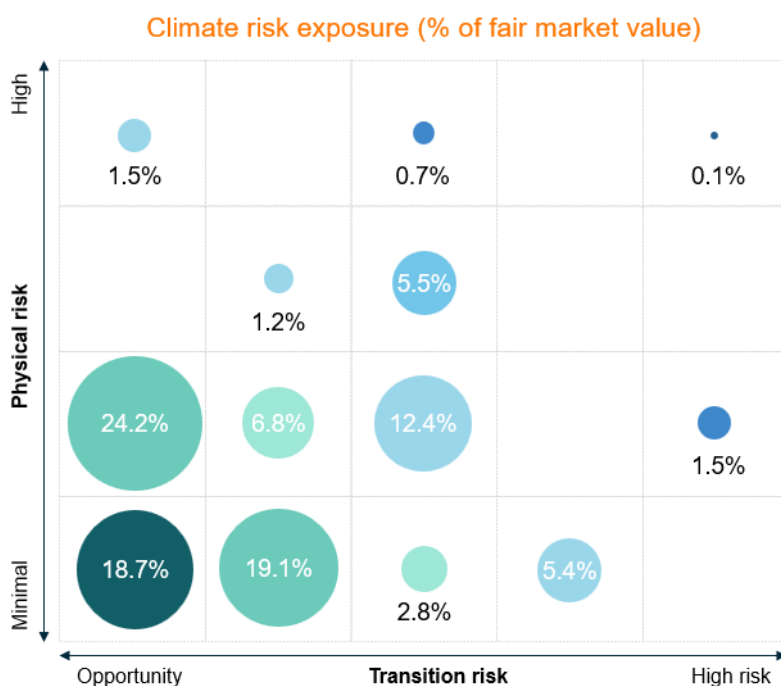
Plugit - Working with the company on Net Zero

- DIF has been working with Plugit, a leading Finnish EV charging infrastructure company in which DIF invested November 2021, to onboard the company on a Net Zero journey. Plugit is Committed to Aligning towards Net Zero and is working to become Aligning towards Net Zero.
- Following a kick-off workshop on Net Zero with the Plugit team, DIF provided a guidance tool and template to support Plugit in developing a roadmap of actions to achieve Net Zero. Plugit is now committed to setting science-based emission reduction targets to achieve Net Zero emissions by 2050 or earlier and is developing a decarbonisation plan.



Portfolio risk exposure

The table below shows the exposure across all assets under management (AUM) to climate-related transition risk and physical risk expressed as a percentage of fair market value per 2023 Q1.



Most investments in the portfolio fall into the bottom-left segments, indicating lower climate risk. This is driven by the large share of renewable energy and other energy transition investments (e.g. battery storage, decarbonisation of heating and cooling, EV charging) within the total portfolio which are considered either a transition opportunity or a minimal transition risk. High and medium transition risk exposures are linked to investments in fossil fuel sectors and adjacencies (e.g. gas pipelines).

High and medium physical risk tends to be more investment specific as both location and sector have a significant influence on determining the level of physical. Several general trends can be witnessed for geographies, where on average, investments in Australia tend to have a higher physical risk exposure. In line with these observations, the exposure in the top-right segment is driven by an Australian fossil fuel pipeline investment. The table below provides three examples of investments in DIF's Funds with high physical or transition risk.

Assessment of selected investments with higher climate risk exposure

Investment	Fund	% FMV	Physical risk	Transition risk	Risk classification commentary and mitigation plan
Cross River Rail	DIF V	0.0%	High	Minimal	<ul style="list-style-type: none"> • Rail asset with high exposure to extreme heat and medium risk in relation to flooding and tropical storms • PPP structure provides material downside protection for investors (including extreme weather protection)
Seraing Power	DIF VI	0.0%	Low	High	<ul style="list-style-type: none"> • High transition risk as investment concerns a gas-fired power plant in Europe • Risk of carbon pricing affecting revenues (increasing costs) is taken by tolling agreement counterparty

					<ul style="list-style-type: none"> ● Possibility of carbon capture as well as mixing hydrogen into the fuel mix being (to be) investigated
Edsger	CIF I	0.8%	High	Medium	<ul style="list-style-type: none"> ● Considered a high physical risk due to high exposure to extreme heat in 2 of the 7 locations. ● Operating costs can be passed on to end-users
Unitank	CIF I	0.8%	Low	High	<ul style="list-style-type: none"> ● High transition risk as investment relates to oil & gas sector (tank storage and associated midstream) ● Value creation team working with the company to explore options for using infrastructure for non-fossil fuels.

Greenhouse gas emissions

DIF annually assesses its manager emissions. By understanding and quantifying its environmental impact, DIF can effectively assess its contribution to climate change and identify areas for improvement. The calculation of emissions enables the company to set measurable targets, track progress, and implement strategies to reduce its carbon footprint.

Manager emissions

The methodology employed to calculate DIF's manager emissions aligns with the guidelines set out by the Greenhouse Gas Protocol (GHG Protocol), a widely recognised standard for measuring and managing greenhouse gas emissions. Following the GHG Protocol's framework, the methodology covers Scopes 1, 2, and 3 emissions. Scope 1 includes direct emissions from sources owned or controlled by the company, such as fuel combustion in company vehicles. Scope 2 encompasses indirect emissions from purchased electricity, while Scope 3 includes other indirect emissions throughout DIF's value chain. The assessment included emissions from employee commuting (Scope 3.6) and business travel (Scope 3.7). By adhering to the GHG Protocol, DIF ensures consistency and comparability in emissions reporting, enabling effective benchmarking and the implementation of targeted emission reduction strategies.

The assessment approach involved a combination of data collection techniques, including bottom-up approaches, surveys and the utilisation of data from third parties (for example, travel booking systems for business travel emissions).

For Scopes 1 and 2, data was collected using a bottom-up approach. Specific data requests were sent out to the different offices within DIF, requesting information on energy use data. This approach allowed for the collection of office-specific data, enabling a more accurate assessment of emissions at the operational level. Notably, when gathering electricity data, a distinction was made between grey and green electricity procurement. This differentiation accounted for the varying carbon intensities associated with different electricity sources, providing a more nuanced understanding of emissions in relation to energy consumption.

Scope 3, Category 6 (Employee Commuting) emissions were assessed through a company-wide employee survey. The survey aimed to gather data on the methods and frequency of transport employees use to commute to the offices. The survey also accounted for emissions associated with working from home with the rise of remote work resulting from the COVID-19 pandemic. This ensured that the methodology accounted for the evolving nature of employee commuting patterns and their corresponding emissions.

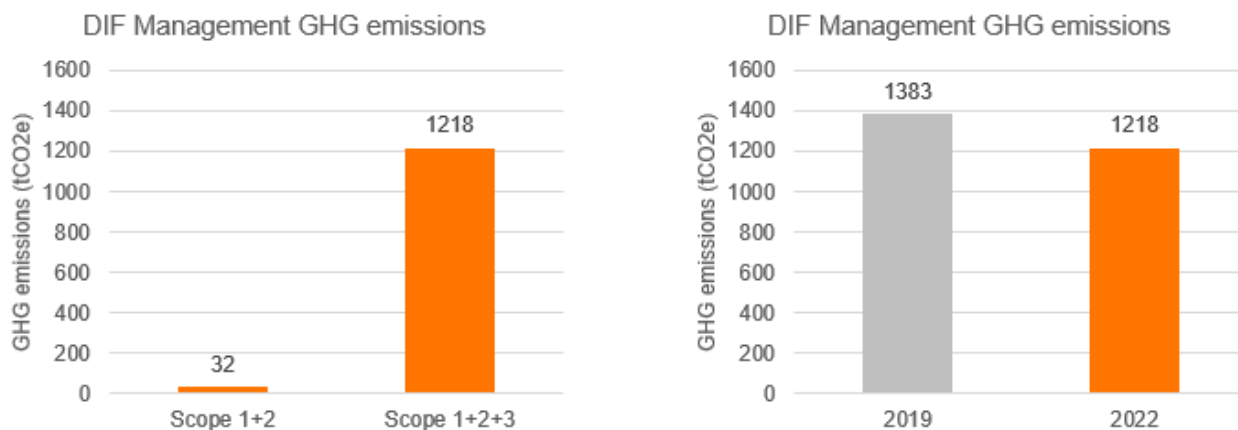
Lastly, for Scope 3, Category 7 (Business Travel), DIF already had a system to collect GHG data through various travel booking systems. This allowed for data aggregation based on the type of transport used, enabling a clear distinction between air travel, train travel, rental cars, and hotel stays. By utilising this data, the methodology accurately captured emissions resulting from business travel, contributing to a comprehensive assessment of the operation manager's emissions.

In total, 1218 tCO₂e were emitted in 2022 from DIF's operational activities, where:

- Scope 1: 14 tCO₂e
- Scope 2: 17 tCO₂e
- Scope 3: 1186 tCO₂e

The largest source of emission, 87% of total emissions, was air travel.

The last assessment of emissions was conducted in 2019. Due to the pandemic, no assessments were carried out as they would have yielded skewed results. Despite almost doubling the number of employees since 2019, DIF's emissions were approximately 12% lower in 2022 compared to 2019. This reduction is attributed to the inclusion of green electricity procurement in the different offices, changes in travel policies and the increase in the proportion of office-based staff. Furthermore, there has been a slight decrease in air travel emissions since the last assessment, mostly due to better data availability.



By calculating its emissions, DIF has a baseline to develop measurable targets for reducing its carbon footprint, track progress towards these targets, and implement effective strategies to achieve them. With 2022 as a concrete baseline, DIF plans to set specific emission reduction goals based on the calculated data in the following year. These targets will serve as clear benchmarks for progress and guide travel policy updates, renewable energy procurement, and employee commuting initiatives. While working towards these goals, DIF will continue collaborating with carbon credit vendors to offset any remaining emissions and maintain its carbon neutrality. However, DIF recognises that while offsetting is not considered as effective in addressing climate change as reducing emissions, it is a step towards mitigating environmental impact.

Portfolio emissions

DIF collects GHG emissions data from the portfolio through the ESG Path program. DIF supports investments with calculating their GHG footprint by providing them with the DIF GHG Footprint Tool. A Scope 1, 2 and 3 tool is available for investments in specific sectors, while a more general Scope 1 and 2 tool is available for investments in all other sectors. As a result of this engagement for FY2022, Scope 1 and 2 data has been received for ~80% of the portfolio (% of fair market value). For Scope 3 data, DIF has been working on improving the coverage and quality of the data and will disclose the figure once data quality is deemed sufficient. Data received as part of the ESG Path process is reviewed by consultants who check for inconsistencies.

Based on an analysis of the available data, a decision was made not to include portfolio Scope 3 emissions as part of this disclosure due to the significant data gaps. While Scope 1 and 2 data are available for most of the portfolio, a data gap exists for 20% of the portfolio. DIF has considered using estimates to close this gap. However, a comprehensive methodology for determining robust estimates (as defined by the Partnership for Carbon Accounting Financials PCAF) for the type of investments involved was not (yet) available, meaning any estimation effort would result in an inaccurate overall figure. In that context, a decision was made to disclose the following normalised metrics defined in the TCFD guidance, Weighted Average Carbon Intensity (WACI) and Carbon Footprint, whilst being transparent on data coverage and/or limitations. The results are presented in the below table.

Portfolio emissions metrics by fund strategy (Scope 1&2, FY2022)

Fund Strategy	WACI ³ (tCO ₂ e/MEUR ⁴ revenue)	Coverage (% FMV ⁵)	Carbon Footprint (tCO ₂ e ⁶ /MEUR invested)	Coverage (% FMV ⁴)
Traditional DIF Funds	166.47	79%	22.02	82%
CIF Funds	81.37	54%	7.13	57%
Dutch Climate Action Fund	8.01	100%	0.29	100%

The Traditional DIF Funds (TDF) have the highest WACI and Carbon Footprint, with the metrics being significantly lower for CIF Funds. A single operational Waste-to-Energy investment within the Traditional DIF Funds mainly drives the difference. If this investment was excluded, the WACI and Carbon Footprint for TDF would be lower than for CIF. Data coverage for both is lower for WACI, mainly due to a lack of revenue data (i.e. due to an investment still being in the construction phase), with overall data

³ Weighted average carbon intensity

⁴ Million euro

⁵ Fair market value

⁶ Metric tonnes of CO₂ equivalent

coverage being significantly higher for TDF. One primary driver of the lower data coverage of the CIF Funds is leasing platform investments, which effectively have no direct operations, and therefore Scope 1 and 2 data are not collected. The Dutch Climate Action Fund is still at an early stage of investment. As not all capital is deployed yet, the figures are unlikely to be representative over time.

Progressing on Net Zero targets

In 2021 DIF published its Net Zero commitment to managing its investment portfolio in line with Net Zero by 2050 or sooner, by becoming a signatory to the Net Zero Asset Managers (NZAM) initiative. After becoming a NAZM signatory, DIF became a member of the Institutional Investor Group on Climate Change and a signatory to the Net Zero Asset Managers initiative. The commitment to the Net Zero Asset Managers initiative includes the obligation to develop and set interim targets within one year of becoming a signatory. From the methodological frameworks recommended by the NZAM, the Net Zero Investment Framework (NZIF) developed by the IIGCC's Paris Aligned Investment Initiative has been adopted by DIF for setting portfolio targets. More detail on the NZIF methodology is provided in the first segment of this chapter.

In line with the requirements from NZAM, DIF has developed interim targets that will progressively bring the DIF-managed portfolio in line with Net Zero by 2050. DIF has developed these targets in line with the portfolio coverage approach defined in the NZIF infrastructure guidance and has set interim targets for 2030 and 2040.

DIF targets (AuM) – Net Zero Investment Framework (“NZIF”)			
	Aligning	Aligned	Net Zero
2030	70% or more		
2040		100%	
2050			100%

For 2030, the target is to have at least 70% of the portfolio considered Aligning or better (i.e. Aligned or Net Zero), increasing the coverage and the level of alignment. By 2040, the target is to have 100% of the portfolio considered Aligned or better (i.e. Net Zero). Ultimately, meeting these two intermediate targets should ensure that DIF is well-positioned to meet our 2050 target of becoming a Net Zero asset manager.

Current progress

The targets have been set based on an initial baseline assessment of ~5% of AUM being considered Aligning or better at year-end 2021. The result for 2022 is 9% AUM being considered Aligning or better, which is already a significant improvement. About 12% of AUM is not yet meeting the criteria to be considered Aligning or better but has demonstrated the intention to achieve these criteria soon. To meet the interim target for 2030, DIF will engage with investments already Committed to Aligning and the remainder of the portfolio considered Not Aligned. The engagement strategy is discussed in more detail below.

Engagement strategy

DIF needed a clear, well-articulated plan since the challenge for Net Zero is significant, especially given the timescales. The challenge lies in our heterogenous portfolio across varying sectors and countries, asset managers based in several offices, and the varying governance structure of our investments, to name just a few. For that reason, DIF has developed a Net Zero engagement process, a pragmatic approach to engaging with our investments on Net Zero. To enable this process to scale across all of the Funds' portfolios, DIF is training the Value Creation Team to engage with the investments and continue developing tools to help the investments on their Net Zero journey.

Engaging with DIF's managed investments on developing decarbonisation plans is essential to setting the foundation for implementation in 2024, so we can move closer to achieving our interim target for 2030. The approach, training and tools we deploy will also prepare us to work with our funds' new investments on Net Zero as our managed portfolio grows in size and complexity.

The Net Zero engagement process provides the management teams at individual DIF investments with an understanding of the concept of Net Zero, the exploration of available/feasible reduction measures and a tool to develop a credible decarbonisation plan. Part of the process involves a kick-off workshop with DIF's ESG team, the management team and asset managers. Following the workshop, the management team explores the feasibility and timing of a list of potential emission reduction measures agreed upon during the workshop. During this process, the management team is supported by the ESG team and external advisors. Outputs from this process are used for the management team to develop a credible, financially viable and technically feasible decarbonisation plan to be signed off by the board, including a Net Zero commitment, emission data disclosure, short and medium-term emission reduction targets, a responsible governance structure and a roadmap to Net Zero with reduction measures for Scope 1 and 2 in the short- and medium-term and identified actions to influence Scope 3 emissions.

DIF has been working with six assets in the investment portfolio in 2023 to test and refine this Net Zero engagement approach. We are also working on understanding and developing an approach to engaging with investments under construction.

Looking ahead

As every DIF department worked together to publish our first stand-alone Climate Report, we celebrated our achievements to date and, at the same time, we looked to the future to think about and plan for the next steps. We achieved many milestones this year – 2022 being the third year of collecting GHG data from Funds' investments as part of the ESG Path. We kicked off a Net Zero engagement process with individual portfolio investments to onboard the investments on a Net Zero journey by developing decarbonisation plans to meet our Net Zero commitment, underpinned by interim targets to 2030 and 2040 as part of our NZAM commitment. We refreshed our Climate Risk Tool to use more granular data set to assess better and manage climate-related physical risks. Climate risks and opportunities and decarbonisation plans are now formally structured in the development of Value Creation Plans at investment acquisition.

The next two years will involve building out the strategic approach DIF has had in place for many years to make it an explicit part of our formalised business processes and drive progress towards our objectives and targets. We will continue to develop the granularity and update the scenarios in the Climate Risk Tool. This will deepen our understanding of the climate-related risks and opportunities at the portfolio level. In the coming year, we will conduct scenario analyses at the Manager level to better assess climate risks and opportunities in financial terms. We will continue to work with the Funds' investments to improve the quality and coverage of data, especially for the investments' Scope 3 emissions. As we continue our progress engaging with investments on their journey towards Net Zero by 2050, we will also develop our own Climate Action Plan, using 2022 as the baseline year, with emissions targets for the Manager's operational emissions.