ESG Policies

25 FEBRUARY 2021

Diversified Sustainable Growth

SEQUOIA ECONOMIC INFRASTRUCTURE INCOME FUND LIMITED

WE SUPPORT THE GLOBAL GOALS FOR SUSTAINABLE DEVELOPMENT

PRI Principles for Responsible Investment
Our purpose is to generate attractive and sustainable returns for a wide range of investors through responsible and disciplined investment into a growing portfolio of diverse economic infrastructure debt. These assets would otherwise be difficult for investors to access, given the specialist nature of the origination and credit assessment skills needed. Our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits across the range of geographies in which we invest.
This memo sets out the ESG policies of the Sequoia Economic Infrastructure Income Fund (“SEQI” or “The Fund”), which Sequoia Investment Management Company (“Sequoia”) adheres to in its role as Investment Adviser while also setting out details of Sequoia’s overall approach to the integration of sustainability risks in the decision making process, which it will apply to SEQI.

**THE UN PRI**

In May 2019, Sequoia signed up to the UN Principles for Responsible Investment (the “Principles”). These cover six high-level principles which Sequoia is fully incorporating in its investment processes and decisions:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

**THE UN GLOBAL COMPACT**

Sequoia operates its business and its investment activities in accordance with the UN Global Compact:

1. Businesses should support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in human rights abuses.
2. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
3. The elimination of all forms of forced and compulsory labour.
4. The effective abolition of child labour.
5. The elimination of discrimination in respect of employment and occupation.
6. Businesses should support a precautionary approach to environmental challenges.
7. Undertake initiatives to promote greater environmental responsibility.
8. Encourage the development and diffusion of environmentally friendly technologies.
9. Businesses should work against corruption in all its forms, including extortion and bribery.

**THE SUSTAINABLE FINANCE DISCLOSURE REGULATION (“SFDR”)**

The Fund complies with the reporting obligations of SFDR (as applicable, in particular Article 8). The current Adverse Sustainability Impact Statement is included in Appendix C and will be on the fund’s website by the 10th March 2021 (www.seqifund.com).
**THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (“TCFD”)**

We aim to adhere to the recommendations of the TCFD and commit to identifying the climate-related risks and opportunities within our investments, and to addressing these risks.

**THE FUND’S SERVICE PROVIDERS**

With a view to gaining greater insight of the Fund’s upstream emissions and to engaging with suppliers on the steps they are taking to reduce these, the Board of SEQi has recently written to each of its top ten service providers regarding their impact on the environment and their commitment to, and strategies for, meeting the Paris climate goals. We intend to maintain this dialogue over time and each supplier’s progress in reducing avoidable emissions will become a factor in our award of contracts to key service providers.

**REMUNERATION POLICY OF THE FUND BOARD**

Remuneration at the level of the Fund Board is fixed and not linked to the performance of the Fund. Equally, the Fund Board have employed service providers such as the AIFM and Investment Adviser, to carry out Portfolio Management on its behalf and in line with the investment strategy set out in its prospectus. On this basis, the Fund Board is therefore not directly involved in the day to day investment considerations/activity and does not benefit financially by the Funds’ performance.

**POLICY GOVERNANCE**

The Board of SEQi is ultimately responsible for implementation of this Policy and ensuring that its service providers each provide an attestation, at least on an annual basis, that the policy has been acknowledged and each service provider is providing services in line with the principles set out within the Policy.

This Policy is considered a ‘live document’, with updates as required and approved by the Board on a regular basis. At a minimum, ESG is a standing agenda item at each quarterly board meeting, with the Policy being formally reviewed and approved in its entirety, at least annually.
## Our climate pledge

1. We support the Paris climate goals to limit the global average temperature increases to well below 2°C, and to pursue efforts to limit the temperature increase to 1.5°C.

2. We support the goal of the world reaching net-zero carbon emissions by 2050.

3. We will endeavour to dispose of investments which are contrary to our ESG policy.

4. We will use our ESG policy to score our loan book and, by investing in higher-scoring opportunities and disposing of lower-scoring opportunities, we aim to improve the ESG score of our loan book over time.

5. We will engage proactively with the companies we lend to, to encourage them to work towards the Paris goals.

6. We will, where appropriate, embed covenants into loan agreements to oblige contractually our borrowers to adopt and comply with appropriate environmental policies.

7. We will embed covenants into loan agreements to oblige contractually our borrowers to report appropriate environmental metrics.

8. We will engage with regulators and policy makers wherever we believe we can accelerate or improve action to combat climate change.

9. We will speak out publicly, and build or support coalitions of like-minded investors and thought-leaders, to drive change where we believe this will be effective.

10. We will report to our investors our compliance with our ESG policies.
Applying ESG principles to investments

ESG principles are applied in three ways to the SEQI portfolio:

1. Negative screening
2. Thematic investing (positive screening)
3. ESG scoring

NEGATIVE SCREENING
The following sub-sectors or asset types are excluded:

1. Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities and facilities involved in tar sands. Note that midstream assets such as pipelines are not necessarily excluded but are subject to ESG scoring as set out below.
2. Infrastructure related to mining thermal coal.
3. Electricity generation from coal.
4. Military infrastructure, such as military housing.
5. Alcohol, gambling and pornography are already excluded by SEQI’s investment criteria.

THEMATIC INVESTING (POSITIVE SCREENING)
Currently, SEQI has three ESG investment themes. Positive screening will be employed to increase the fund’s exposure to these investment themes, subject to existing concentration limits.

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

ESG SCORING
An ESG scoring framework helps Sequoia to allocate capital between projects and to measure its progress over time in a quantitative way.

Sequoia’s proprietary ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the ‘direction of travel’. For example, a business that currently contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution.

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

A brief summary of the ESG scoring methodology is set out in Appendix A.

Note that the ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower’s credit rating (for example, weak corporate governance has a negative contribution to credit quality) but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile, and vice versa.

ESG scores must be taken into account in the investment process. Ceteris paribus, when evaluating potential investments, Sequoia will prioritise transactions with higher ESG scores, and when considering the potential disposal of investments, Sequoia will prioritise transactions with lower ESG scores. By investing in higher-scoring opportunities, and disposing of lower-scoring opportunities, the aim of the Policy is to improve the ESG score of our loan book over time.
Assessing the effect of climate change

OVERVIEW
As part of its investment analysis, Sequoia will, where possible, assess the consequences for its investments of three climate change scenarios: a 1.5-2°C case where the physical risks of climate change are modest but the transitional risks (e.g. stranded assets) are high; a 2-3°C case where emissions stabilise at current levels; and the ‘business as usual’ case where temperatures rise at 3-6°C resulting in increased physical risks (e.g. rising sea levels).

Characteristics of the modelled scenarios come from the Sustainable Development Scenario presented in the IEA’s 2017 World Energy Outlook and from RCP 2.6 of the IPCC’s Fifth Annual Report. From time to time these scenarios are likely to be updated.

By adopting independent scenarios, Sequoia aims to have an analytical framework that is objective, clear and easily communicated to third parties. A summary of the scenarios is found in Appendix B.

INVESTMENT ANALYSIS
Each investment should be assessed in each of the three scenarios, with the goal of identifying (a) credit rating changes arising from climate change and (b) elevated climate event risk. These items should be assessed separately as a standard credit rating framework struggles to incorporate event risk.

Credit rating changes may arise (for example) by making different assumptions for power prices, carbon taxes, regulatory changes or stranded assets. In some cases, these changes may be capable of being quantified (e.g. using a different projection for power prices would result in different credit ratios); in other cases, there may be a large amount of subjectivity.

Note that some projects might benefit from some climate change scenarios.

One important consideration is the term of an investment versus the timescale for climate change. A hydro power plant that benefits from glacial melt might be apparently quite resilient over, say, a three-year timescale whilst facing a significantly more challenging outlook on a thirty-year timescale.

Elevated climate event risk may include (for example) extreme weather events, coastal flooding or drought. Even if a borrower is currently able to secure effective insurance against these events, it may not be able to do so in the future, if the events become more frequent or more intense. As these types of risks are difficult to quantify, exposure to event risk should be classified as either Low, Moderate or High.

<table>
<thead>
<tr>
<th>Climate event risk categorisation</th>
<th>Typical characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>• Hardened assets</td>
</tr>
<tr>
<td></td>
<td>• Multiple back-up systems</td>
</tr>
<tr>
<td></td>
<td>• Government-backed long-term insurance</td>
</tr>
<tr>
<td></td>
<td>• Limited exposure to physical assets (e.g. a services business)</td>
</tr>
<tr>
<td></td>
<td>• Low-risk locations</td>
</tr>
<tr>
<td>Moderate</td>
<td>• Network of assets over a wide geographic area</td>
</tr>
<tr>
<td></td>
<td>• Some level of physical hardening</td>
</tr>
<tr>
<td></td>
<td>• Commercial insurance</td>
</tr>
<tr>
<td>High</td>
<td>• High-risk location prone e.g. to coastal flooding</td>
</tr>
<tr>
<td></td>
<td>• Exposed to water supply shortages</td>
</tr>
</tbody>
</table>
OVERVIEW
Sequoia’s ESG policy is not limited to investment selection but can include a range of engagement strategies designed to encourage and promote positive behaviour in the companies that it lends to.

LOAN TERMS
Where appropriate, loan terms should include covenants or repeated representations to ensure that the borrower complies with its stated ESG objectives and to encourage it to improve its standards over time. These could include:

1. Obligations to comply with environmental standards and regulations.
2. Obligations to adopt net zero policies.
3. Obligations to reduce pollution over and above statutory minimums, including light and noise pollution.
4. Obligations to adopt or continue social policies such as living wages, non-discrimination, employee diversification and minority board representation.
5. Obligations to adopt or continue good governance policies such as independent directors, whistleblowing, complaints procedures and internal audit functions.

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

ONGOING REPORTING AND MONITORING
Where appropriate, loan terms should also include an obligation on the borrower to report suitable ESG metrics. These could include:

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

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

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

VOTING
Although lenders do not, as a matter of course, have voting rights in the companies that they lend to, from time to time they are required to consent to loan modifications (such as waivers of specific loan provisions). In such situations, Sequoia’s policy is not to consent if the overall net effect of the requested modification would be negative for the ESG profile of the investment.
We encourage sustainability in the workplace through a range of initiatives including those set out below.

**CARBON NEUTRAL PLEDGE**
Sequoia runs its business on a carbon-neutral basis and is committed to continuing this policy. We believe that this is the right thing to do as a business to help to meet the international target set out by the 2015 Paris Agreement to limit global warming to below 2°C.

We achieve this by offsetting our carbon emissions (predominantly international travel, IT and office space) by planting Giant Sequoia trees in the UK, and investing in other carbon capture schemes.

Wherever possible, it is our preference to reduce our carbon emissions, rather than offsetting them. This can be achieved through energy efficiency, reduced international travel (see below) and green procurement. Offseting, therefore, should be primarily aimed at unavoidable emissions.

**BUSINESS TRAVEL**
We promote healthier journeys to work, and seek to reduce environmental pollution caused by travel through, for example, our bike-to-work scheme, where Sequoia offers loans to employees wishing to purchase cycles and associated safety equipment as a tax-free benefit.

Where possible, we look to replace international business travel by video conferencing.

**CHARITY AND THE COMMUNITY**
Sequoia has a generous charitable giving programme by which it donates amounts (to a cap) to charities selected by our employees.

**DIVERSITY AND EQUAL OPPORTUNITY**
Sequoia is an equal opportunities employer. We do not discriminate by gender, sexual orientation or race and actively promote diversity. We have a highly multinational team from a variety of social backgrounds.

**CORPORATE GOVERNANCE**
- Anti-bribery and tax evasion
- Personal trading policy
- Employee Handbook (incl. policies on whistleblowing and diversity and equal opportunities)
- Compliance Manual (incl. gifts policy)
- Sequoia Ethical Code of Business Conduct

**MODERN SLAVERY POLICY**
Modern slavery is a crime and a violation of fundamental human rights. It takes various forms, such as slavery, servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person’s liberty by another in order to exploit them for personal or commercial gain. Sequoia has a zero-tolerance approach to modern slavery and it is committed to acting ethically and with integrity in all its business dealings and relationships and to implement and enforce effective systems and controls to ensure modern slavery is not taking place anywhere in its own business or its supply chain.

**REMUNERATION POLICY**
The Investment Adviser’s remuneration policy is in line with the business strategy, objectives, values and interests of the company and the funds or investors of the funds it serves. It also ensures it maintains and applies a sound and prudent remuneration process, which does not impair compliance with its duty to act in the best interest of the funds, which identifies and manages any conflicts of interest, promotes sound and effective risk management and does not encourage risk taking which is inconsistent with the risk profile of the company, or the risk profiles and constitutional documents of the alternative investment funds under management.

The Investment Adviser ensures that variable remuneration is not paid through methods that facilitate the avoidance of the remuneration requirements, with its board retaining the primary responsibility for ensuring that the ultimate goal of having a sound and prudent remuneration policy and structure, is not improperly circumvented.
Appendices

Appendix A: Sequoia’s ESG scoring methodology

Appendix B: Climate change scenarios

Appendix C: Adverse Sustainability Impact Statement
The “raw” ESG score, $\varepsilon$, is equal to the sum of the following items:

1. A score of 1-5 representing the environmental impact of the sector and sub-sector the business is in (the “E score”).

2. A modifier of between +0.5 and -0.5 reflecting the borrower’s positioning and direction of travel within its sector and sub-sector, relative to its peers (the “E modifier”). (For example, a ferry operating on bio-fuels would receive credit versus one operating on conventional fuels.)

3. A modifier of between +1 and -1 reflecting the borrower’s corporate governance (the “G score”).

4. A modifier of between +1 and -1 reflecting the borrower’s social impact (the “S score”).

Modifications to the E score, item (2) above, must be evidenced based and capable of independent verification.

The total of items (3) and (4) will be capped at +1.

$\varepsilon$ can range between -1.5 and 6.5. The ESG score is presented as a number from 0 to 100 by using the following formula:

$$\text{ESG score} = 12.5 \times (\varepsilon + 1.5)$$

**ILLUSTRATIVE TABLE OF E SCORES**

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Solar, wind, hydro, geothermal</td>
<td>5</td>
</tr>
<tr>
<td>• Energy Transition Assets (other than standby generators using hydrocarbons, which score 4)</td>
<td></td>
</tr>
<tr>
<td>• Waste-to-energy (other than woodchip, which scores 4)</td>
<td></td>
</tr>
<tr>
<td>• Rail, rolling stock, light rail</td>
<td>4</td>
</tr>
<tr>
<td>• Water utilities, desalination plants</td>
<td></td>
</tr>
<tr>
<td>• Biofuels</td>
<td></td>
</tr>
<tr>
<td>• Equipment manufacturing (other than renewable energy equipment, which scores 5)</td>
<td></td>
</tr>
<tr>
<td>• Logistics facilities</td>
<td></td>
</tr>
<tr>
<td>• Ferries</td>
<td></td>
</tr>
<tr>
<td>• Electricity distribution and transmission</td>
<td>3</td>
</tr>
<tr>
<td>• Electricity and gas supply businesses (other than supply businesses selling exclusively renewable electricity, which score 1)</td>
<td></td>
</tr>
<tr>
<td>• TMT infrastructure</td>
<td></td>
</tr>
<tr>
<td>• Student accommodation and education infrastructure</td>
<td></td>
</tr>
<tr>
<td>• Healthcare assets</td>
<td></td>
</tr>
<tr>
<td>• Aircraft leasing, airports and airport services</td>
<td></td>
</tr>
<tr>
<td>• Ship leasing (other than vessels used in offshore wind, which score 3)</td>
<td></td>
</tr>
<tr>
<td>• Ports (other than those involved in the transportation of thermal coal, which score 1)</td>
<td></td>
</tr>
<tr>
<td>• Midstream assets (other than oil pipelines and refineries, which score 1)</td>
<td></td>
</tr>
<tr>
<td>• Electricity generation (including PPAs) from gas</td>
<td></td>
</tr>
<tr>
<td>• Roads, service stations, car parking</td>
<td></td>
</tr>
<tr>
<td>• Electricity generation (including PPAs) from nuclear</td>
<td>2</td>
</tr>
<tr>
<td>• Landfill (although gas or electricity generation from pre-existing landfill sites will score 3)</td>
<td></td>
</tr>
</tbody>
</table>

For businesses active in more than one sector (e.g. diversified utilities) an average score weighted by EBITDA contribution should be used.
# Appendix A:
Sequoia’s ESG scoring methodology

## TABLE OF E MODIFIERS

<table>
<thead>
<tr>
<th>Borrower’s positioning (the “E modifier”)</th>
<th>Score impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full environmental due diligence showing no material issues</td>
<td>0.1</td>
</tr>
<tr>
<td>Infrastructure has indirect result of reducing pollution</td>
<td>Up to 0.5</td>
</tr>
<tr>
<td>Fully funded environmental remediation plan</td>
<td>Up to 0.5</td>
</tr>
<tr>
<td>Effective water and waste management plan</td>
<td>0.1</td>
</tr>
<tr>
<td>Effective biodiversity management plan</td>
<td>0.1</td>
</tr>
<tr>
<td>Use of farmland or natural buffers; visual impact of the project</td>
<td>-0.2 to 0.0</td>
</tr>
<tr>
<td>Project’s air pollution profile, relative to its peers</td>
<td>-0.25 to 0.25</td>
</tr>
<tr>
<td>Ditto water pollution</td>
<td>-0.25 to 0.25</td>
</tr>
<tr>
<td>Ditto noise pollution</td>
<td>-0.1 to 0.1</td>
</tr>
<tr>
<td>Ditto light pollution</td>
<td>-0.1 to 0.1</td>
</tr>
<tr>
<td>Project’s contribution to climate change, relative to its peers</td>
<td>-0.25 to 0.25</td>
</tr>
<tr>
<td>Efficient use of materials and/or commitment to recycling, relative to its peers</td>
<td>-0.25 to 0.25</td>
</tr>
<tr>
<td>Others at the discretion of the investment committee</td>
<td>-0.25 to 0.25</td>
</tr>
</tbody>
</table>

Note: the sum of the E Modifiers cannot be more than +0.5 or less than -0.5.

## TABLE OF G SCORES

<table>
<thead>
<tr>
<th>Borrower’s corporate governance (the “G score”)</th>
<th>Score impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit function</td>
<td>0.1</td>
</tr>
<tr>
<td>Independent board members; independent oversight counsel</td>
<td>0.1 to 0.2</td>
</tr>
<tr>
<td>Effective policies for board and senior management diversity</td>
<td>0.1</td>
</tr>
<tr>
<td>Effective whistle-blower policy</td>
<td>0.1</td>
</tr>
<tr>
<td>Others at the discretion of the investment committee</td>
<td>-0.5 to 0.5</td>
</tr>
</tbody>
</table>

Note: the sum of G Scores cannot be more than 1 or less than -1.
Appendix A:
Sequoia’s ESG scoring methodology
Continued

**TABLE OF S SCORES**

<table>
<thead>
<tr>
<th>Borrower’s social impact (the “S score”)</th>
<th>Score impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job creation in socially deprived areas</td>
<td>Up to 0.5</td>
</tr>
<tr>
<td>Effective consultation mechanisms with local populations</td>
<td>0.1</td>
</tr>
<tr>
<td>Mechanism for complaints for local populations</td>
<td>0.1</td>
</tr>
<tr>
<td>Providing public amenity at low cost / subsidised cost for deprived social groups</td>
<td>Up to 0.2</td>
</tr>
<tr>
<td>Significant local opposition</td>
<td>-0.3 to -0.1</td>
</tr>
<tr>
<td>Living wage or similar policies</td>
<td>0.1</td>
</tr>
<tr>
<td>Preservation of historical or cultural elements</td>
<td>-0.4 to 0.1</td>
</tr>
<tr>
<td>Health &amp; Safety policies and procedures</td>
<td>-0.5 to 0</td>
</tr>
<tr>
<td>Others at the discretion of the investment committee</td>
<td>-0.5 to 0.5</td>
</tr>
</tbody>
</table>

Note: the sum of S Scores cannot be more than 1 or less than -1.
BUSINESS AS USUAL SCENARIO
A reference case where countries execute on the low range of commitments to reduce greenhouse gas emissions announced by mid-2017 leads to a world characterised by relatively little policy action, continued reliance on fossil fuels and resulting extensive changes in the climate due to failure to contain global temperature increases.

This scenario presents high physical risk from increased severe weather events, creating increased importance on hardening assets and managing exposure through insurance, geographic diversification and other measures. Renewables, energy storage, LNG and energy efficiency are likely to continue to grow significantly in this scenario but at more modest rates than in the other scenarios.

Appendix B:
Climate change scenarios

The world is on a 2100 trajectory toward:
- Global electricity demand nearly doubles from today’s levels
- Global carbon levels increase by 30% from today’s levels
- Carbon prices are relatively limited on emissions

CO₂
- CO₂ concentrations 3-4 times higher than pre-industrial levels by century end
- Sea level rise of 0.5-1.0 meter and more heat waves and changes of rainfall patterns by 2100

Generation Mix 2040
- 31% Renewables
- 60% Fossil fuels
- 9% Nuclear

Aligns IEA’s CPS and IPCC’s RCP 8.5
GREENER SCENARIO
Countries fully enact existing policies to achieve prior commitments and related emissions targets. These policy and target likelihoods were assessed by IEA in the 2017 WEO’s NPS and have been updated since the Nationally Determined Contributions were established for the Paris Agreement. This scenario avoids the worst impacts of climate change, but even with expanded climate initiatives, the world continues on a trajectory of more than a 2°C temperature increase, resulting in moderate climate changes.

While current and announced policies on reducing carbon dioxide emissions will help limit global temperature increases, they are not expected to achieve a 2°C target. This scenario shows increasing policy support for growing renewables capacity and enhanced infrastructure, while still preparing for changes in the climate. In this scenario there is a risk of stranded assets (e.g. hydrocarbon power generation) and regulatory change.

GREENER SCENARIO
Aligns IEA’s NPS and IPCC’s RCP 6.0

- Global carbon levels decrease by 14% compared to the Business as Usual Scenario
- Carbon prices implemented in select countries
- Global electricity demand is 6% lower than in Business as Usual Scenario, even as electric vehicles play an increasingly larger role
- The world is on a 2100 trajectory toward
  - Stabilising atmospheric CO₂ concentrations at twice those of pre-industrial levels by century end
  - 2-3°C increase from pre-industrial levels
  - Generically mitigating the worst climate change impacts by 2100, but it is projected that there will be more frequent and longer heat waves, more unusually hot and fewer unusually cold days and regional trends will vary widely

Renewables
Fossil fuels
Nuclear

Generation Mix 2040

- 40%
- 50%
- 10%
1.5-2°C SCENARIO (1.5-2°C)

A vision – assessed by IEA in the 2017 WEO’s SDS – of where the energy sector needs to stand in 2040 to not only stay within a 2°C temperature increase, but also to achieve related policy goals including near universal access to electricity. Under this scenario, the world has a near even chance of staying within the 2°C temperature increase, thereby mitigating extreme impacts to climate and their associated physical risks.

Experts continue to highlight that global climate policy in general is not currently on track to limit warming to a 2°C increase. In striving to achieve the 1.5-2°C Scenario, there are opportunities in energy storage, renewables, electricity grid stabilisation and, ultimately, decarbonising the energy sector. However, there is an elevated risk of stranded assets and regulatory change.

Appendix B:
Climate change scenarios
Continued

1.5-2°C SCENARIO
Aligns IEA’s SDS and IPCC’s RCP 2.6

Global carbon levels decrease by 65% compared to the Business as Usual Scenario

Carbon price schemes are established in all advanced economies, and emerging countries implement cap and trade schemes

Global electricity demand is 12% lower than in the Business as Usual Scenario, due to:

- Electrification of all emerging economies
- Strong energy efficiency measures
- Tripling of electric vehicle deployment compared to the Greener Scenario

The world is on a 2100 trajectory toward

- 1.5-2°C increase from pre-industrial levels
- Sea level rise of 0.26-0.55 meter
- Generally mitigating the worst climate change impacts, but they are not completely avoided
The Fund is a London-listed investment trust which invests in a diversified portfolio of private debt, backed by infrastructure projects in developed markets. The Fund has published an ESG Policy (the “Policy”) which comprehensively covers a range of environmental, social and governance issues that are relevant to its private debt portfolio. These include:

1. Negative screening of investments including those with the highest potential environmental impact, such as coal-fired power stations and oil rigs.
2. Positive screening of investments to encourage additional capital to deployed towards projects such as renewable energy and energy transition.
3. ESG scoring to enable the Fund to allocate capital towards projects with a stronger environmental or social profile.
4. The provision within loan documents of covenants and other terms designed to ensure compliance with environmental and social standards and achieve goals such as reducing carbon emissions.
5. ESG engagement with borrowers.

SUMMARY

<table>
<thead>
<tr>
<th>Entity:</th>
<th>Sequoia Economic Infrastructure Income Fund, Ltd (the “Fund”)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEI:</td>
<td>2138006O12FQJ6PX91</td>
</tr>
<tr>
<td>Period:</td>
<td>1st January 2020 to 31st December 2020</td>
</tr>
</tbody>
</table>

The Fund is not currently reporting this section of the Impact Statement.

As at the date of this Statement, the final Level 2 regulatory technical standards of SFDR (the “RTS”) which include the detailed PAI disclosure requirements have not yet been adopted. The Investment Adviser, together with the Fund Board, will therefore continue to review and consider its obligations on principal adverse impacts disclosures as they apply to the Fund and will update this Statement and all relevant documents in accordance with the timing requirements of SFDR.

In particular, given the investments of the Fund, it may not be appropriate or relevant for the Fund to report on the detailed metrics included for principal adverse impact reporting under the RTS.

However, as part of the overall approach to sustainable investing, the Fund does already broadly consider certain principal adverse impacts – for example, through its negative screening and engagement with borrowers and will continue to report on these.

DESCRIPTION OF POLICIES TO ASSESS PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

The Fund has a comprehensive framework to assess the principal adverse sustainability impacts of its loan portfolio as identified by the Investment Adviser, through its proprietary ESG scoring framework, as described in the Policy. This was initially adopted in 2020 and has been updated most recently in February 2021. Ultimate responsibility for the Policy lies with the Board of Directors of the Fund, but day-to-day implementation and compliance with the Policy is delegated to Sequoia Investment Management Company, the Investment Adviser to the Fund. Given the nature of the Fund’s investments, the ESG scoring framework is a means to broadly consider the principal adverse impacts of investments while not seeking to obtain the detailed metrics required by SFDR.

This takes account of the sector and sub-sector of the loan, as modified by the reporting, actions and policies of the borrower. Underlying data gathered from the borrowers must be supported by verifiable evidence, or in certain cases provided under legal representations from the borrower (in which case inaccurate or misleading information could result in the borrower being in default on their loan). In addition, data received from independent third parties can be used in the assessment of the potential adverse impacts of the loan.
The Fund also takes into account, where appropriate, credit risks arising from climate change by looking at a range of climate scenarios. In these scenarios, investments may be affected by a range of factors such as economic disruption, changes in commodity prices (including power), an increase in the incidence of extreme weather events, changes in public policy and demographic changes.

DESCRIPTION OF ACTIONS TO ADDRESS PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

During the reference period, the Fund has adopted a comprehensive set of environmental policies and strategies, as set out in the more detail in the Policy. The Fund has gathered a significant amount of data from its borrowers on their ESG profile and used this to help formulate its strategy. It has retrospectively scored its entire loan portfolio against ESG criteria and adopted positive and negative screening for future investments.

In parallel with this, the Fund has disposed of a number of legacy investments that were not compliant with its new ESG policy.

Over the course of the next reporting period, the Fund hopes to achieve the following goals:

1. Continue to promote beneficial investments through the allocation of the Fund’s capital.
2. Continue to work with its portfolio of borrowers and encourage them to improve their ESG profiles.
3. Improve the quality and extent of its reporting to the Fund’s investors.
4. Improve the average ESG score of its portfolio and remove or reduce its exposure to the lowest-scoring investments.

ENGAGEMENT POLICIES

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

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

ADHERENCE TO INTERNATIONAL STANDARDS

The Fund intends to comply with the reporting standards of the Sustainable Finance Disclosure Regulation ("SFDR") as applicable.

In addition, the Investment Adviser is a signatory to the UN Principals for Responsible Investing ("UN PRI") and operates in business in accordance with the UN Global Compact.

Going forward, the fund intends also to adhere to the recommendations of the Taskforce for Climate-related Financial Disclosures ("TCFD").

HISTORICAL COMPARISON

As this is the fund’s first Adverse Sustainability Impact Statement, no historical comparison is possible.