

# RESPONSIBLE INVESTMENT POLICY

Climate Investment has been focused on Global Greenhouse Gas impact measurement since incorporation. However, with the growing focus on Environmental, Social and Governance factors (ESG), CI has formalized the assessment of the ESG-footprint of its investments. This Responsible Investment Policy has been written to improve transparency of how CI incorporates ESG considerations in its business process.

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## 1. Introduction

### 1.1. Overview and objectives

Climate Investment (CI) is an independently managed investor that seeks to accelerate greenhouse gas (GHG) reduction at scale by investing in solutions aimed at decarbonizing heavy-emitting sectors. As such, incorporating environmental and sustainability concerns is an intrinsic part of our DNA, and they are considered throughout our business activities. With the growing momentum for the Environment, Social and Governance (ESG) movement, and increased regulation of Responsible Investing, such as the European Union's (EU) Sustainable Finance Disclosure Regulation (SFDR), CI sought to formalize its consideration of the environment and sustainability and expand its responsible investing practices to include further Environment (E), Social (S) and Governance (G) factors.

The objective of this document is to outline (1) the activities that CI undertakes to incorporate ESG factors in investment decisions, and (2) the activities that CI undertakes to measure the GHG impact of investments.

### 1.2. Impact vs ESG

In the context of CI's investment process and portfolio companies, 'Impact' refers to the way a current or potential investment is expected to result in a change directly or indirectly to GHG emissions from the use of the product or service when compared to a defined status quo or incumbent. This change can include GHG emissions that are avoided, reduced, recycled, or stored when compared to a baseline scenario. For example, the use of CI portfolio company [Norsepower's](#) Rotor Sails results in less emissions relative to the emissions of a large ship where the Rotor Sail was not used. It is imperative to our mission that we calculate impact to ensure capital is directed to the solutions with the highest potential to mitigate the effects of climate change.

However, ESG, in the context of CI's investment process and portfolio companies, refers to the operational 'footprint' of current/potential investments resulting from their operations, regardless of whether products or services are sold. This includes any impact on the environment or society from manufacturing or operating the said business, for example, waste produced through operations or treatment of employees. As a Responsible Investor and member of the PRI, it is crucial for CI to consider ESG in its investment process.

### 1.3. Frameworks for Impact integration

[Project Frame](#) is a coalition dedicated to addressing the GHG impact of proposed climate solutions relative to the status quo in the market, which is known as forward-looking

GHG impact. By creating an open-source [methodology for impact calculations](#), the coalition hopes to better drive capital to the solutions that have the potential to address GHG emissions. CI was a co-founder of the coalition, is a member of Project Frame's Steering Committee and leverages its methodologies and frameworks for impact calculations.

#### 1.4. Frameworks for ESG integration

##### 1.4.1. ESG Data Convergence Initiative

The [ESG Data Convergence Initiative](#) (EDCI) is an initiative formed to drive convergence around a standard set of ESG metrics and to be a mechanism for comparative reporting to benefit all stakeholders in the private markets. The initiative was born in 2020 when a small group of GPs and LPs convened to discuss ESG data challenges. As a part of its work, it has identified key ESG metrics relevant across private markets. The EDCI has since experienced tremendous growth, with more than 300 GPs and LPs now part of the initiative. The partnership is open to any GPs and LPs that wish to join and agree to support the principles of the work.

CI has aligned its ESG data request to the EDCI and requires portfolio companies to report on these metrics.

##### 1.4.2. PRI

CI became a signatory of the [UN Principles for Responsible Investment](#) (PRI) in 2022. The PRI is the world's leading proponent of responsible investment and encourages the adoption of six principles for responsible investment:

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

CI adheres to the above principles and will report to the PRI annually.

### 1.5. Team responsible

Impact and ESG related activities are carried out by individuals across the organization.

- CI's investment deal teams are responsible for obtaining Impact and ESG data during the due diligence process, and Board members/observers will be responsible for gathering related data from portfolio companies.
- CI's Chief Strategy Officer has the overall responsibility of Impact and ESG activities and reporting and is supported by both the Impact Associate and Strategy Associate.

### 2. Definitions

Responsible Investment	The integration of environmental, social, and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance
ESG	<p>Environmental, social, and governance issues that are identified or assessed in responsible investment processes.</p> <ul style="list-style-type: none"> <li>• Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems.</li> <li>• Social factors are issues relating to the rights, well-being, and interests of people and communities.</li> <li>• Governance factors are issues relating to the governance of companies and other investee entities.</li> </ul>
Greenhouse Gas (GHG) Emissions	GHGs are gases that absorb infrared radiation and trap heat in the atmosphere.
CO <sub>2</sub> e	Carbon dioxide equivalent or CO <sub>2</sub> e is a term for describing different greenhouse gases in a common unit. For any quantity and type of greenhouse gas, CO <sub>2</sub> e signifies the amount of CO <sub>2</sub> which would have the equivalent global warming impact.

GHG Impact	How a proposed climate solution is expected to directly or indirectly result in a change in atmospheric Greenhouse Gas (GHG) concentration, either through emissions reduction compared to a defined status quo or incumbent or through GHG removal. This is sometimes referred to as Scope 4 emissions.
Baseline Scenario	A projection of GHG emissions over time, representing what would have happened in the absence of the proposed climate solution.
Scope 1 Emissions	Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles).
Scope 2 Emissions	Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Although scope 2 emissions physically occur at the facility where they are generated, they are accounted for in an organization's GHG inventory because they are a result of the organization's energy use.
Scope 3 Emissions	Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organization's scope 1 and 2 boundary. The scope 3 emissions for one organization are the scope 1 and 2 emissions of another organization. Scope 3 emissions, also referred to as value chain emissions, often represent most of an organization's total GHG emissions.
Screening	Applying filters to a financial instrument to rule investments in or out based on pre specified criteria which might include an investor's preferences or investment metrics and are part of an investment process or reflect a client or fund mandate.

	When used as an ESG incorporation approach, screening can be positive, norms-based or negative.
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### 3. Minimum standards on ESG

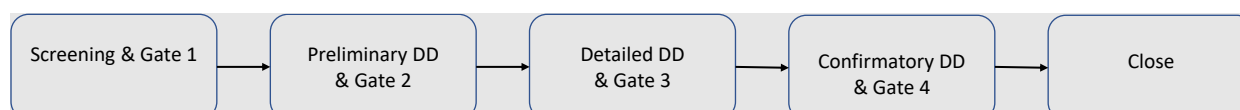
In accordance with CI's foundational principles, all investments that CI makes must have a considerable near-term GHG impact while doing no significant harm to the environment or society.

During the due-diligence process, CI will also check that any potential investments have the appropriate governance practices and procedures in place to ensure successful operation of the said investment before progressing the deal. The full due-diligence approach is detailed in section 4.2.

During the portfolio management process, CI will require investees to share ESG data (detailed in section 4); however, in year one of ESG data reporting (CY2022), no minimum performance thresholds for ESG factors have been set. This will be revisited once a baseline performance has been determined by analyzing year one's data and through benchmarking.

The CI Member's Agreement prohibits CI from investing in any gambling, pornography, and narcotics-related activities as well as the production of alcohol or tobacco for human consumption.

### 4. Integrating Impact and ESG into investment process



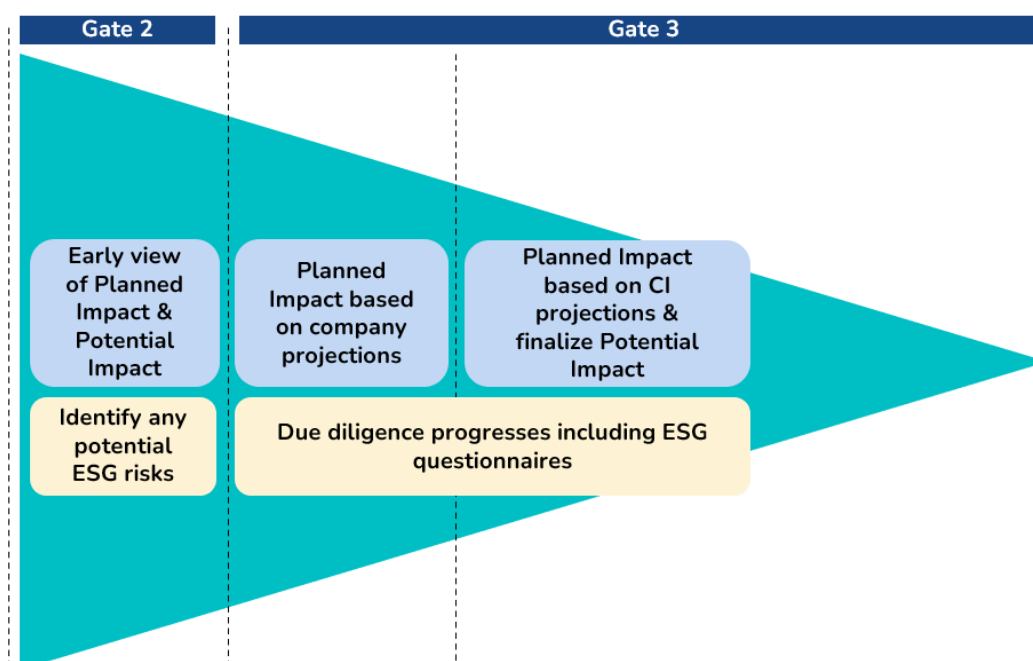
#### 4.1. Screening

When screening an investment, the overarching Impact and ESG-related principle to be applied to investments is: *"Does this opportunity substantially contribute to GHG impact while doing no significant harm to other social and environmental objectives?"*. This is in accordance with Climate Investment's mission to have GHG impact and to be a responsible investor.

At the screening stage, a high-level, desk-top based assessment of this principle is conducted relative to CI's minimum investment criteria. This includes assessing whether the product or business model presents an opportunity for GHG Impact.

#### 4.2. Due diligence

For each new opportunity that is taken through the investment process, we mature our estimates of the impact of the investment and view of ESG risks and opportunities as the diligence work unfolds and more information about the opportunity is revealed.



#### 4.2.1. Gate 2

Gate 2 is the first formal review by the Investment Committee (IC). At this step, potential impact of the technology is usually estimated based on high level or third-party market data. This is based on an understanding of the company's technology and the market in which they operate. Both the planned impact and potential impact calculations are estimates.

In addition, any areas that could present a significant ESG risk should be identified by the Deal Team and addressed with the potential investee. For example, if a company uses chemicals in their processes, the handling and disposal of such products should be discussed.

#### 4.2.2. Gate 3

Following Gate 2, the planned impact forecast is updated to reflect the detailed review of the company's technology and to leverage the Investment Team's forecasts of the company's performance.

At this stage, the Deal Team is also able to progress the ESG due diligence. The ESG data request includes the metrics recommended by the [EDCI](#):

- GHG emissions (scope 1, 2 and 3)



- Renewable Energy Consumption
- Carbon emission reduction initiatives
- Diversity
- Work-related accidents
- Net new hires
- Employee engagement

CI will tailor the ESG topics on which it engages with the company management team based on the risks relevant for the company, which may be impacted by the company's sector or geography. For example, companies that are engaged in operational activities within the Oil and Gas sector may experience significant safety risks, which we would discuss with the company. A conversation on safety risks may be less relevant for companies that are software-based. Likewise, we also discuss any material ESG risks that a company may encounter because of the geography in which it operates.

#### 4.3. Portfolio management

##### 4.3.1. ESG post investment

Once the investment is complete, the Asset Team<sup>1</sup> will consider any material ESG risks that were highlighted during the due diligence process. If required, a remedial plan to address the ESG risk will be devised.

Within 90-days post investment, a call on ESG data collection should take place between the designated person at the investee company and CI to align on the data collection process. This will take place regardless of whether any ESG risks or concerns were identified.

##### 4.3.2. ESG data collection and management

We have partnered with [KEY ESG](#) on ESG data collection. KEY ESG is a software platform that supports GPs with ESG data collection from portfolio companies, and guides portfolio companies through the process. All ESG and impact data will be stored

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<sup>1</sup> Post-initial investment, a team made up of nominated director and/or observer and (if a separate person) a shareholder representative, is formed to manage the oversight of the portfolio asset, manage any follow-on investment, and exit processes and present Portfolio Review Meeting updates and proposed decisions to the IC. The Team may also include Technology and Commercialization resources.

and managed within the KEY ESG platform. CI will collect ESG data annually and aims to do this within H1 of each year.

CI will collect data from companies that largely reflects the EDCI recommendations and CI's ESG due diligence questionnaire.

#### 4.3.3. On-going support and target setting

On-going support to address material ESG risks will be provided by the Asset team to the investee company, with consultation from the Legal team and Strategy team as required.

For year 1 of the investment, the priority will be to collect ESG data and establish a baseline. Thereafter, areas for improvement will be prioritized and CI will engage with the investee to improve performance.

Given CI's mission and mandate, we will endeavor to support companies to reduce their Scope 1, 2 and 3 emissions and may set targets for reduction in emissions in the future.

#### 4.3.4. Guidelines on monitoring ESG risks and incidents

CI representatives as Board Director or Board Observers at portfolio companies have obligations including the following related to ESG and Impact:

- Monitor for delivery of realized impact.
- Monitor for material ESG-related risks and opportunities.

The Director/Observer will conduct these activities on an ongoing basis. In addition, directors/observers regularly engage with management and will be responsible for tracking news and events such as regulatory changes or stakeholder concerns that may lead to ESG risks.

#### 4.3.5. Exit management

During the exit process, CI will conduct a final review of the GHG impact and ESG performance of the portfolio company. This will be included in the investee's presentation material to show enhanced value to the potential buyer. CI will also confirm the obligation of the investee to report on GHG impact to CI until the end of the fund lifecycle.

Potential buyers will also be reviewed for any ESG or impact related risks, and CI will engage the appropriate stakeholders on any risks that emerge.

### 5. Limitations to ESG methodologies and data

Despite best efforts to ensure a standardized approach to ESG data collection, we acknowledge that this data may be limited. Some reasons for this include:

- Reporting of ESG data by portfolio companies, while encouraged, is not enforced. This may lead to some gaps in the data.
- Some companies may not have ESG data readily available and may thus choose not to report select categories.
- We rely on the self-reporting of ESG data which may lead to inaccuracies and bias.
- There are different methodologies to GHG emission reporting. While we have endeavored to use a single methodology (activity-based) across portfolio companies, some may self-select to use a spend-based approach given that this data may be more readily available.
- Reporting of Scope 3 emissions by portfolio companies is optional for the reporting year 2022 to ease the burden on portfolio companies in the first year of ESG reporting. While we will require this in the future, we will encourage companies to focus on material emissions categories which may lead to the scope of the emissions calculation not being uniform across portfolio companies.

As we mature on our ESG journey and our portfolio companies become more sophisticated on ESG data collection, we will seek to address these limitations and thus improve the quality of the ESG data we collect.

## 6. Impact and ESG reporting

### 6.1. PRI

CI is a member of the PRI and will therefore report to the PRI on its Responsible Investment practices.

### 6.2. External reporting

CI endeavours to publish its external Corporate and Impact report annually. This report will include:

- GHG impact of portfolio
- ESG data relating to CI
- ESG data relating to portfolio companies in aggregate

Reporting of GHG impact should follow the guidance of the CI GHG Methodology and Practices reference document. The GHG impact section of the report will be subject to limited scope verification and assurance annually by a third-party reviewer.

## 7. Reviewing our Responsible Investment Policy

This policy was last updated in July 2023. At minimum, the policy will be refreshed every two years; however, it will be reviewed and updated as required to reflect changes in applicable changes in laws, regulations, standards, and market demands.