Green Investment Policy

September 2021

This Green Investment Policy is designed to ensure that the activities of Green Investment Group ("GIG") are in line with its Green Investment Principles[1].

Operation

This Green Investment Policy sets out GIG's approach to application of the Green Investment Principles, each of which are detailed in the pages that follow.

The operation and implementation of this policy is supported by GIG's Green Impact Reporting Criteria[1], which describe in more detail the methodology and approach we take for evaluating the quantitative and qualitative contributions to the Green Purposes[2]– the 'green impact' – of each project into which GIG invests.

Scope

Green Investment Principles 1 and 2 (together, GIG's "Green Objective")[3] apply to all GIG's business in making, supporting, facilitating, engaging in and encouraging investments, lending and related activities.

All of the Green Investment Principles apply to all forms of loans and investment by GIG.

As a part of Macquarie Group, GIG also applies Macquarie's Environmental, Social and Governance policies and approaches[4].

Evolution

Many of the potential green benefits of any given loan or investment are not susceptible to exact and certain measurement. They can only be estimated using the best available scientific and technical approaches, all of which continue to evolve and necessarily require the application of reasonable interpretation and professional judgment. We therefore expect to continue to develop this policy to reflect changes in market opportunities, evaluation methodologies, scientific knowledge and technological approaches.

Review

This Green Investment Policy will be reviewed at least annually.

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[1] See www.greeninvestmentgroup.com/who-we-are/measuring-our-impact/

[2] See Section 1.1 of this document

[3] See Sections 1 and 2 of this document

[4] See www.macquarie.com/au/en/about/company/environmental-social-and-governance.html

Principle 1: Positive contribution to a recognised Green Purpose

We will only undertake activities that we are satisfied will result in (or are reasonably likely to result in) a positive contribution to one or more of our recognised Green Purposes.

Every loan, investment or activity (as defined within the Scope) must comply with this Principle.

1.1 Our Green Purposes

We will only undertake activities that we consider will, or are reasonably likely to, accelerate, advance, support or result in the completion, deployment, development, emergence, establishment or expansion of any business, enterprise, market, industry, infrastructure, project or technology which we consider will, or is reasonably likely to, contribute to one or more of our five Green Purposes, namely:

1. the reduction of greenhouse gas emissions[5];
2. the advancement of efficiency in the use of natural resources;
3. the protection or enhancement of the natural environment;
4. the protection or enhancement of biodiversity;
5. the promotion of environmental sustainability.

In this Policy, 'green impact' refers to the quantitative and qualitative contributions to the Green Purposes of each project into which GIG invests. See page 3 for more details on how activities can contribute to our Green Purposes.

1.2 How we apply this Principle

In considering whether or not a GIG loan, investment or activity will align with this Principle, we will:

- screen the potential for the activity to contribute positively to each individual Green Purpose;
- evaluate the risk of the activity not contributing positively to one or more Green Purposes;
- consider the extent to which loans or investment appear likely to have each of the relevant attributes described under Principle 4 (Clear and firm investment criteria); and
- for loans or investment, apply the principles of evaluation set out under Principle 5 (Robust green impact evaluation).

We will decline to participate in any activity that we consider is not aligned with this Principle.

[5] In this policy, "greenhouse gas" has the meaning given by Article 1 of the 1992 United Nations Framework Convention on Climate Change

GIG's Green Purposes

We have developed the following interpretation of ways in which activities can contribute to our Green Purposes, with reference to public sources including the UNFCCC definition of Greenhouse Gas, the Ellen MacArthur Foundation definition of Circular Economy and the UN Convention on Biological Diversity definition of biodiversity.

Reduction of greenhouse gas emissions

Reduction of greenhouse gas emissions means reducing emissions of atmospheric gases responsible for causing global warming and climate change[6] from human-caused sources to the atmosphere. GIG measures the reduction of emissions associated with our investments relative to a defined baseline, as detailed in our Green Impact Reporting Criteria[7].

Advancement in the efficient use of natural resources

Natural resources are those renewable and finite naturally occurring assets that can be used for economic production or consumption. These include mineral and energy resources, soil resources, water resources and biological resources[8].

Efficient use of natural resources means optimising human utilisation of these resources in a sustainable way that safeguards the earth's naturally occurring assets by avoiding waste and reducing our consumption of non-renewable resources.

Advancement towards this goal means transitioning our economic activity from linear consumption of non-renewable resources to a circular economy based on sustainable use of renewable resources[9].

Protection or enhancement of the natural environment

Protection or enhancement of the natural environment means managing the effects of human activity on our physical environment - land, water and air - in a way that does not degrade the environment over time but maintains or improves environmental quality and functions.

In order to ensure the future integrity of the natural environment and restore, maintain or enhance the value of ecosystem services that it provides, human activity must operate within the carrying capacity of Earth's natural systems – atmospheric, terrestrial, hydrological/marine.

Protection or enhancement of biodiversity

Protection or enhancement of biodiversity means retaining or restoring the variability among living organisms and the ecological complexes of which they are part, including diversity within species, between species and of ecosystems[10].

This requires protecting habitats or species that are under threat by applying the mitigation hierarchy to avoid, minimise, rehabilitate and offset[11], if possible, any residual ecological harm, controlling the spread of invasive species, and seeking opportunities to improve ecosystem integrity and deliver biodiversity net gain.

Promotion of environmental sustainability

GIG's first four Green Purposes describe the ways in which our investments can make a direct contribution to maintaining or improving environmental sustainability.

The promotion of environmental sustainability means actively and visibly supporting, encouraging or facilitating the transition to a greener global economy through the indirect effects of our investments.

Investments that promote environmental sustainability do so by:

- enabling, or reducing constraints to, the further deployment of green technologies or activities;
- applying innovative approaches to reduce or remove adverse social impacts from green technologies or activities, or facilitating the deployment of green technologies or activities by reducing their social or socio-economic constraints;
- showing an innovative approach to deploying finance into the green economy;
- providing a demonstration effect of green investment that can be replicated by other investors;
- improving public and market confidence in green technologies or activities;
- demonstrating the commercial viability of innovative green technologies or activities;
- supporting green technologies or activities that are expected to remain part of a sustainable economy for the long term;
- showing additionality by supporting the development and creation of new green assets; or
- effectively communicating the environmental benefits of investment into green projects.

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6 https://unfccc.int/process-and-meetings/the-convention/glossary-of-climate-change-acronyms-and-terms#g
7 https://www.greeninvestmentgroup.com/who-we-are/measuring-our-impact.html
8 https://stats.oecd.org/glossary/detail.asp?ID=1740
9 https://www.ellenmacarthurfoundation.org/circular-economy/concept
10 https://www.cbd.int/convention/articles/?a=cbd-02
11 https://www.iucn.org/theme/business-and-biodiversity/resources/business-approaches-and-tools/business-and-biodiversity-net-gain

Principle 2: Reduction of global greenhouse gas emissions

We are committed to ensuring that the effect of all our loans, investments and activities, taken together, will (or is reasonably likely to) contribute to the reduction of greenhouse gas emissions globally.

The effect of our activities for each financial year, taken together with all previous financial years, when aggregated, must comply with this Principle.

2.1 How we apply this principle

In considering whether or not our loans, investments or activities to date, in aggregate, comply with this Principle, we will:

- consider, when assessing the potential green impact of any potential loan, investment or activity to be completed in any financial year, the extent to which the effect (when aggregated with the effects of our activities to date) will, or is reasonably likely to, contribute to the reduction of greenhouse gas emissions globally; and
- decline to participate in that loan, investment or activity if it would result in our failing to meet this Principle.

Principle 3: Enduring green impact

We aim for our green loans and investments to deliver safe and attractive returns, and so we will manage risk based on principles of sound finance and responsible investment, in order to preserve our position as an institution that can deliver enduring green impact.

3.1 How we apply this principle

In considering whether any potential loan or investment will comply with this Principle, we will:

- consider its potential green impact under Principle 1 (positive contribution to a recognised Green Purpose) and Principle 2 (Reduction of global greenhouse gas emissions) above;
- consider a risk analysis of that transaction, including an assessment of climate-related risks and other environmental and social risks in accordance with Macquarie's group-wide Environmental and Social Risk Policy[4]; and
- apply a judgement on a case- by-case basis on whether each potential loan or investment would, if made, result in an investment portfolio which demonstrates a reasonable and prudent balance of risk and green impact in light of the potentially investible market opportunities available within our sectors.

Principle 4: Clear and firm investment criteria

We will be clear and firm about the green standards we expect. We will identify the legal standards and other relevant green attributes that we will always consider when assessing whether any particular investment is likely to have a positive green impact.

4.1 Mandatory legal requirements

As a pre-condition to investment we need to be satisfied that the business, infrastructure or project being supported by that investment will comply with all environmental and planning laws, regulations and permits in all material respects. This includes compliance with all the sustainability requirements imposed by the relevant regulations providing economic incentives for the project financial base case as presented to us, to the extent those regulations apply to the relevant project.

In accordance with our obligations as an Equator Principles Financial Institution, we shall adhere to the applicable requirements of the Equator Principles[12]. We will seek to apply best practice aligned with the Equator Principles, which may go beyond the requirements of local legislation, for all investments regardless of their type (debt or equity) or location (Designated or non-Designated Countries[13]).

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[12] See www.greeninvestmentgroup.com/who-we-are/measuring-our-impact/ for details of our implementation of the Equator Principles.

[13] Designated Countries under the Equator Principles are those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. The list of Designated Countries can be found on the Equator Principles Association website at: https://equator-principles.com/designated-countries/

4.2 How we apply this principle

We also need to be satisfied that the relevant business, infrastructure or project will have, or is reasonably likely to have, a positive (and, so far as practicable, quantifiable) effect that will contribute to one or more of our Green Purposes.

It is therefore our policy to identify and evaluate the likely green impact of any potential loan or investment. We may also consider any likely green impacts resulting from their effect on the wider economy, including any positive effect that may result from our investment through financial market development, reduced future technology costs or wider effects such as behavioural change in society.

In considering and evaluating the likely green impacts, together with the green risks (see definition of green risk in Section 5.3 'Evaluation of green risk') associated with any proposed loan or investment, we will apply a professional judgement using the evaluation process set out under Principle 5 (Robust green impact evaluation).

Following this evaluation, we will carefully consider all performance and risk attributes, including the sound finances of the project and its compliance with Macquarie Group's Environmental and Social Risk Policy, before deciding whether to invest. The decision will be based on a reasonable and considered professional judgement of the overall net effect of the relevant loan or investment, in accordance with Principle 5 below (Robust green impact evaluation). The more significant, numerous and likely we consider the impact of any net positive effects of any potential loan or investment, the more we are likely to give favourable consideration to that loan or investment.

4.3 Quantification of green impact

In each case, where reference is made to the quantification of green impact, this is to be made in accordance with our latest applicable Green Impact Reporting Criteria.

We review potential green impacts across several time-horizons including:

- the estimated total green impact over the life of the project; and
- the estimated average annual green impact of the project over its life.

In considering whether any loan or investment would make a contribution to achieving any of the Green Purposes, we will evaluate (and, so far as practicable, quantify) the extent to which the relevant project is likely to have the corresponding positive green impact.

Principle 5: Robust green impact evaluation

Before investing or otherwise participating in a transaction, we will carefully consider the likely green impact of all prospective investments, based on a robust and transparent evaluation approach and process.

As part of due diligence for every loan or investment, a reasonable and considered professional judgement will be made about its likely contribution towards producing a positive green impact. We will also ensure that all our loans or investments, taken together, will (or are reasonably likely to) contribute to the reduction of greenhouse gas emissions globally.

We will do this by applying the relevant criteria set out under Principle 4 (Clear and firm investment criteria) and by following the evaluation process set out in Section 5.2 below.

5.1 How we apply this principle

To ensure the credible assessment of green impact, our evaluation process will be based on the following principles:

- **Consistency:** we will apply consistent methods and procedures for evaluation across investments and use consistent criteria and assumptions in evaluating significance and relevance through the application of our Green Investment Handbook. Any data collected and reported should also be capable, so far as practicable, of being meaningfully aggregated and compared.
- **Proportionality:** we will take a proportionate approach, focusing our assessment on those components of green impact that are material to the outcome and acknowledging that in most cases precise measurement is not possible. Accordingly, we may decide that assessment of certain aspects of green impact is not appropriate where this is of little or no material

value to the overall assessment or may be difficult or uneconomical to achieve.

- **Completeness:** we will assess (subject to the above) all relevant information reasonably available, with the aim of ensuring that there are no material omissions from the data and information that would substantively influence our assessment and decision having regard to the asset performance over time and other external factors.
- **Transparency:** we will require clear and sufficient information to be provided to us, so that a robust assessment can be made. We expect specific exclusions or inclusions of information to be clearly identified and assumptions explained, and appropriate references to be provided for both data and assumptions.
- **Accuracy:** we will, so far as practicable, aim to reduce uncertainties with respect to environmental measurements, estimates or calculations, subject to the principle of Proportionality, and to use measurement and estimation methods that avoid bias, but acknowledging that in most cases precise measurement is not possible.
- **Prudence:** we will use realistic assumptions, values and appropriate procedures when estimating the green impact of investments as part of the risk assessment process. To the extent that it is reasonable and prudent to do so, we will seek to rely on existing reports produced to meet the requirements of other parties and will seek to avoid unnecessary duplication.

5.2 Evaluation of green risk

As an integral part of our due diligence and overall risk analysis for every loan or investment, as described under Principle 3 (Enduring green impact), we also assess and evaluate the scope and nature of certain risks affecting the success of that loan or investment in meeting the requirements of this Principle.

We define 'green risk' as the risk of a loan or investment not contributing to GIG's Green Purposes (see Principle 1) as expected. In evaluating green risk, we will take into account quantitative and qualitative green impact data and we will consider and evaluate both positive and negative impacts of a loan or investment and seek to mitigate negative impacts where possible. This assessment may also consider the wider reputational risk associated with an investment.

In performing our monitoring and continuing engagement process described under Principle 6 (Effective covenants, monitoring and engagement) we will also consider and assess:

- the actual operational performance and related green impact of the project against green impact performance forecasts made in the initial investment case; and
- the nature and extent of the green risk of each investment against other benchmark investments in the same sector.

5.3 Application of future standards to existing investments

We recognise that the test of whether a loan or investment has or is likely to have a green impact depends significantly on the standards and performance of the most likely alternative outcome without investment. As technology progresses and legal and societal standards for environmental performance develop, the standard by which we assess green impact is anticipated to rise, requiring updates to our application of this Principle.

Although we will not seek to impose new standards retrospectively on our investments (unless agreed with companies in advance or required by law), it is our general policy to encourage a culture of continuous improvement in environmental performance in the business, infrastructure or project being supported.

5.4 Delegated authority

Where financing is granted indirectly by us through a fund manager, a subsidiary or other authorised person such as a joint venture partner, we may delegate the responsibility for ensuring the application of this Principle, subject to appropriate monitoring, evaluation and reporting requirements.

Principle 6: Effective covenants, monitoring and engagement

We will seek to impose clearly documented requirements for securing the green impacts expected from each of our loans and investments, and we will monitor those impacts on a continuing basis over the life of that loan or investment.

6.1 How we apply this principle

An important feature of any loan or investment by us will be the incorporation of covenants (or equivalent provisions for equity investments) in financing documentation, requiring compliance by the borrower or investee and underlying project to ensure control, monitoring and reporting of green impact (together with wider environmental requirements) and management of green risk.

While the specific requirements will depend on the characteristics of the investment, its sector and size of investment, our core requirements will normally include:

- to deliver, as a condition precedent, estimates of the key operating parameters and green impact performance figures for each year during the life of the project
- to provide, at least annually, reports on such operating parameters and green impact performance and other material environmental matters in a format agreed with us;
- to comply with all relevant environmental laws, regulations and permits in all material respects;
- to implement and maintain suitable environmental management systems and policies and ensure key project parties have similar arrangements in place;
- to give us prompt notice of any materially adverse environmental issues arising in connection with the investment and, so far as possible, to implement an action plan to remedy the issue; and
- to comply with other project or sector-specific covenants designed to ensure delivery of anticipated green impacts and to minimise specific adverse environmental impacts.

Where a borrower or investee is not in compliance with its covenants, we will work with it to bring it back into compliance to the extent feasible. If the borrower or investee fails to re-establish compliance within an agreed grace period, we reserve the right to exercise remedies, as we consider appropriate.

6.2 Monitoring and continuing engagement process

Once a loan or investment has been made, we will monitor associated performance, including compliance with agreed covenants and the management of green risks. This will be undertaken on a regular basis over the life of the investment. In addition, this monitoring will also review continued compliance with Principle 1 (Positive contribution to a recognised green impact) and Principle 2 (Reduction of global greenhouse gas emissions). Monitoring will be based on reporting from our borrowers and investees and incorporate follow- up engagement as required.

Where required, we (or an independent expert appointed on our behalf) may conduct site visits, and review other sources of information, including that provided by other stakeholders.

The nature and extent of monitoring and engagement will be a function of the specific characteristics of the investment, its sector, size of investment, the level of green risk and the nature of covenants agreed.

Principle 7: Transparent reporting

We will report at least annually on the implementation of our Green Investment Principles.

7.1 How we apply this principle

Our annual Progress Report will disclose appropriate green impact data. In order to do this, we will include aggregated information on the quantified reduction in the emission of greenhouse gases and such other metrics as are appropriate to communicate the green impact of our investments, as well as a qualitative description of green impacts. Quantified data will be subject to independent assurance as appropriate.

To facilitate this reporting, we will collate appropriate anticipated and actual green performance data for each of our loans or investments as specified in our Green Impact Reporting Criteria[14], as provided by the requirements of the relevant financing documentation and supplemented by information collated through monitoring and engagement during the relevant reporting period (as described under Principle 6: Effective covenants, monitoring and engagement).

We will also report in accordance with our obligations under the Principles for Responsible Investment[15] and the Equator Principles[16], as applicable.

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[14] See www.greeninvestmentgroup.com/who-we-are/measuring-our-impact/

[15] See more www.unpri.org/

[16] See more https://equator-principles.com/

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