

TCFD

Our progress against the TCFD recommendations

In line with the current UK Listing Rules requirements, our TCFD-aligned disclosures take into account the implementation recommendations in the 2017 TCFD Annex. In addition, we have considered the 2021 TCFD Annex and applied it where possible. Some recommendations in the 2021 TCFD Annex will require more time for us to fully consider, before we can adopt them in due course, for instance climate scenario analysis and stress testing.

Climate scenario analysis relies on extensive and consistent data sets across the portfolio, which the Investment Adviser is looking to obtain from the borrowers. Obtaining this information is proving challenging for a number of reasons: borrowers having limited quality data availability; loan agreements not requiring the collection and/or provision of such data; uncertainty and complexity of projecting climate scenarios; and uncertainty surrounding transition risks arising from economic and policy shifts. As inaccurate or incomplete data can undermine the climate risk assessments and the modelling of financial impacts, the Fund is not making these disclosures at this point. Whilst not being able to commit to an exact date, we are continuing to work towards being able to analyse the portfolio under different climate scenarios in the future.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

TCFD recommended disclosures

A. The Board's oversight of climate-related risks and opportunities.

The whole Board is responsible for setting the strategy for the Fund, including in relation to climate-related risks and opportunities. The Board meets at least quarterly, during which they, together with their independent consultants and the Investment Adviser, review the risks and opportunities facing the Fund, including in relation to climate change. As part of this, the Investment Adviser prepares an ESG report each quarter for the Board. The Fund has a number of committees which are tasked with focusing on various specific elements of climate-related risks and opportunities:

- the Management Engagement Committee is responsible for encouraging the Fund's service providers to minimise their avoidable greenhouse gas emissions and offset unavoidable emissions, thereby helping to minimise the Fund's Scope 3 emissions;
- the Audit Committee has responsibility for climate-related disclosures including SFDR and TCFD;
- the ESG and Stakeholder Engagement Committee reviews, approves and monitors performance against the Fund's ESG policy; and
- the Risk Committee oversees and advises the Board on risk strategy and exposure including ESG risks.

SEI Board members have a wealth of experience and expertise related to the oversight of climate issues as well as other ESG areas more broadly.

For instance, James Stewart – Chair of SEI's ESG and Stakeholder Engagement Committee – served as Chief Executive of Infrastructure UK; in 2010 he was responsible for developing the first UK National Infrastructure Plan, which had a strong ESG focus. Since then, his global role at KPMG allowed him to promote ESG principles in infrastructure around the world. More recently, James chaired the project team responsible for developing the UNECE's PPP Evaluation Methodology for the SDGs.

Sarika Patel is on the Boards of two Article 9 funds, and has personally overseen clear disclosures for both SFDR and TCFD reporting requirements. One of these funds has also been issued the first Voluntary Carbon Market ("VCM") designation by the London Stock Exchange.

Fiona Le Poidevin has been involved in promoting ESG and sustainable investment for over a decade. In 2018 she led the launch of The International Stock Exchange's first green finance market segment for companies, bonds and funds creating a positive environmental impact.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

ESG, including climate-related risks and opportunities, has become central to the Investment Adviser's approach to infrastructure debt.

Climate risks are considered at each stage of the investment process, including the initial screening of opportunities (where positive and negative screening are applied, as outlined in the ESG policy) and in meetings of the Investment Adviser's Investment Committee. Risk assessment takes the form of both quantitative analysis (such as calculation of an ESG risk score) and qualitative assessments (such as approach of the management of investee companies).

After an investment has been made, the Investment Adviser continues to monitor it for changes to its climate-related risk profile. Primarily this is undertaken through regular discussion with, and information gathering from, the borrowers that the Fund has lent to. This is further enhanced in some cases by bespoke climate-related covenants and undertakings included within loan agreements.

The Investment Adviser considers climate-related risks not only in relation to individual investments, but also aggregated at the portfolio level. In other words, it is necessary to assess correlations of climate-related risks: for example, geographical concentrations in areas that may be prone to coastal flooding.

Key developments

- For the 2022/23 financial year, the Fund engaged KPMG to provide an independent limited assurance process under ISAE (UK) 3000 on our ESG scores for the SEQI portfolio. This will be the third year of mandating the ESG audit, which provides an independent oversight of our analysis. We understand that we were the first FTSE 250 investment fund to undertake such a process.
- Following the establishment of the ESG and Stakeholder Engagement Committee in March 2022, three more committee meetings took place over FY 2023 with full attendance. The Board recognises the value and importance to all stakeholders of organisations incorporating effective environmental, social and governance policies. In furtherance of the Fund's ESG aspirations and the increased attention from stakeholders on these matters, the Board formed this dedicated committee with delegated responsibility for addressing key ESG-related matters. Andrea Finegan has been appointed as an independent consultant to the ESG and Stakeholder Engagement Committee. Andrea has particular experience in and expertise on climate change, and renewables in particular. She is currently the independent chair of the Schroders Greencoat Valuation Committee, having previously served as COO of Greencoat. Prior to this, Andrea was responsible for similar management functions at Climate Change Capital.
- In February 2023, the Investment Adviser hired its first dedicated ESG lead, reflecting their continued commitment to improving their ESG expertise and resources to better assess and manage the growing risks and opportunities in the climate space.

Our progress against the TCFD recommendations

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

TCFD recommended disclosures

A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

The Fund is well positioned to take advantage of the climate-related opportunities, since the transition to a low carbon economy is likely to require very significant capital, and governments around the world will look to the private sector to finance this, at least in part. These opportunities include: renewable energy, grid enhancement, energy storage, electric vehicle charging, energy efficiency projects and improved mass transit systems. Moreover, traditional lenders such as banks are not always well positioned to adapt quickly to new technologies and that will increase the need for private debt. The Fund is already seeing significant lending opportunities in many of these areas and expects this demand for capital to increase over time.

At the same time, the Fund is exposed to climate-related risks, primarily through its investment portfolio. The key risks are:

- transitional risks, namely that some assets may become less profitable, or even worthless, as a result of legislation, regulation or market changes. For example, a carbon tax might mean that it is no longer economic to operate a gas-fired power plant;
- technology risk, namely that some parts of the infrastructure sector are developing rapidly, such as energy storage and hydrogen fuel systems, which may result in changes to markets that are difficult to predict. For example, the development of better batteries may make some "peaker plants" (power plants that operate when electricity demand increases and electricity prices spike) redundant;
- physical risk, namely that one consequence of climate change is the increased frequency of droughts, flooding, fires, storms or other natural phenomena. For example, businesses located in coastal areas may need to invest substantially in sea defences or otherwise harden their assets; and
- social and economic risks, namely that climate changes may make some areas much more difficult to live in, resulting in economic hardship, mass migration and potential political instability.

It is not possible to put precise time scales on these risks, but it is reasonable to assume that they are all currently present to a certain extent and that they are likely to grow over time.

B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

The impact of the climate-related opportunities is that the Company will be able to deploy capital on attractive terms to a wider range of sectors than currently, such as battery storage, carbon capture, grid enhancement and energy efficiency projects. This will increase the diversification of the Company's portfolio and help it to deliver an attractive risk-adjusted return to Shareholders.

Conversely, avoiding sectors where there is an unduly high level of climate-related risk, or even limiting the Fund's exposure to sectors where there is some climate-related risk, will decrease the portfolio's diversification.

The Investment Adviser's view is that, between these two factors, there will be a net benefit for the Fund's strategy. This is because the Fund is already avoiding the most at-risk sectors and is only beginning to see the full range of opportunities that are likely to arise. Moreover, avoiding borrowers with a high degree of climate-related risk is simply prudent lending and should be done regardless of any ESG strategy.

One purpose of the Fund's ESG score is to help track resilience to climate change, amongst other things. Part of the investment strategy is to improve the portfolio's weighted average ESG score over time, which can be achieved by improving the portfolio's resilience to climate change risks.

C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Overall, the Fund believes that its strategy is resilient to climate change. In order to assess resilience, it is necessary to consider a range of scenarios. Broadly speaking, in 2°C or lower scenarios, transitional risks will be high but physical and social-economic risks will be low. In higher temperature scenarios, the converse will be the case.

There are two potential impacts of climate-related risk on the Fund.

Firstly, some sectors within the infrastructure market may become uninvestable in the future, for example assets in the hydrocarbon value chain such as coal-fired power stations or upstream oil and gas assets. This is especially likely to be the case in low temperature increase scenarios, where the economy has transitioned rapidly to a low carbon state. Currently, under its ESG policy, the Company is avoiding those sectors where there is a near-term or medium-term risk of them becoming uninvestable. Therefore, this potential impact can be considered long-term. Should it happen, the Company's portfolio might over time become less diversified; however, in the opinion of the Investment Adviser, this risk is more than outweighed by the opportunities described above.

Secondly, the credit quality of some of the borrowers that the Fund lends to might deteriorate. For example, extreme weather events might materially increase the cost of insuring some assets, or they may not be insurable without investing in asset-hardening. This risk is mitigated in a number of ways:

- each of the borrowers has equity capital at risk ahead of the loan. This acts as a "shock absorber" in that the equity capital would need to be lost before the Company as lender can lose money;
- the Company's loans are typically short-dated; they are mostly due to be repaid within five years. That is before many of the most serious climate risks are likely to manifest;
- the Investment Adviser undertakes thorough due diligence on each company that the Company lends to, and assessing their exposure to climate risk is part of that. In other words, the Company is not likely to make a loan to a business that has poor resilience to climate change risk; and
- the investment portfolio is highly diversified in terms of the location of its borrowers and the sectors and sub-sectors they operate in. This will reduce the effect of many risks, such as technological disruption or unexpected regulation or legislation.

Key developments

- Following the disposal of, or in some cases natural repayment of, its loans to borrowers in sectors that were not permitted under the ESG policy during financial year 2021/22, the Company no longer has exposure to sectors with the highest levels of transition risk. Throughout 2022/23, these sectors continued to be excluded through the Company's negative screening process as per its ESG policy, which was updated in November 2022.
- These investments have been replaced with, inter alia, loans in new sectors such as renewable energy and water solution projects that are positioned to take advantage of the opportunities that arise from the transition to a low carbon economy. This is in part reflected by the fact that new loans this year have a weighted average ESG score of 64.29, which sits above the portfolio average of 62.29.
- This year, the Investment Adviser was awarded the 2022 global award for Best ESG Infrastructure Investment Strategy by Capital Finance International ("CFI"), in recognition of its progress against its ESG commitments and framework. CFI's announcement of the award win can be seen here: <https://cfi.co/awards/best-practice/2023/sequoia-investment-management-company-best-esg-infrastructure-investment-strategy-global-2022/>.

TCFD

Our progress against the TCFD recommendations

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks.

TCFD recommended disclosures

A. Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risks are primarily assessed at the level of each investment and form part of the Investment Adviser's due diligence process.

Typically, third-party expert reports will be commissioned to assess key risks. For example, engineers might review the physical condition of the borrower's assets, including their exposure and resilience to extreme weather risk. This will then be analysed in tandem with a review of the borrower's insurance policy and its other resources to cover uninsured risks.

Climate-related risks are thus identified, and where possible quantified, in the due diligence phase of an investment and discussed in the Investment Committee. Risks that are unacceptably high will result in an investment not being made.

B. Describe the organisation's processes for managing climate-related risks.

The Investment Adviser monitors each loan at least twice a year (and more frequently if required). This includes a review not just of credit quality, but also of the borrower's ESG profile, including climate-related factors. To assist in this, each borrower is sent annually a detailed questionnaire including qualitative and quantitative topics which will assist the Investment Adviser in updating its analysis.

A range of steps can be taken as a result of this ongoing monitoring of investments. For example, the internal credit rating may be adjusted, the loan may be considered for disposal, or the decision may be made not to participate in a refinancing of the loan when it comes to its maturity date. In other words, if it becomes clear that a borrower's resilience to climate change is deteriorating, the Company can choose to dispose of the loan.

Similarly, if a sector is beginning to experience higher levels of climate-related risks, the Investment Adviser will avoid making new loans in it. Given the relatively short maturity of many of the loans in the portfolio, this will rapidly have the effect of decreasing the Fund's exposure to that sector.

C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Climate risk is integrated into the entire investment and risk management process.

At a very early stage, in considering whether to dedicate resources to a potential new loan, the Investment Adviser will apply negative and positive screening and estimate the borrower's ESG score. Some potential investments will be rejected at this stage if the climate-related risks are likely to be unacceptably high.

Following the due diligence process, the Investment Committee will consider ESG matters as a part of the deliberations. The investment's ESG score will be agreed upon by the committee.

Subsequently, the investment is considered by the Investment Manager and in some cases the Risk Committee of the Board, who take into account both credit quality and ESG profile, including, where appropriate, resilience to climate change. The Risk Committee carries out a regular assessment of the Company's risks, including ESG risks, which feeds into the ESG and Stakeholder Engagement Committee which is responsible for overseeing the overall ESG strategy.

Finally, each quarter, the Investment Adviser prepares for the Board an ESG report, which reviews the overall portfolio.

Key developments

- The Fund has a comprehensive framework to identify and assess climate change risk. This is fully integrated into its loan approval, monitoring and risk management processes. In February 2023, the Investment Adviser hired its first dedicated ESG lead, who is involved with ESG monitoring and attends Origination Committee and Investment Committee meetings to add to the discussion of ESG factors at these stages. This reflects the Fund's continued commitment to improving its ESG expertise and resources to better assess and manage the growing risks and opportunities in the climate space.

Metrics and targets

Disclose the metrics and targets used to assess and manage the relevant climate-related risks and opportunities where such information is material.

TCFD recommended disclosures

A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Currently, the Fund uses the ESG score as its key metric for assessing the environmental profile of its investments. This ESG scoring framework helps the Fund allocate capital between projects and to measure its progress over time in a quantitative way. 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.

Going forward, the Fund is looking to widen its range of metrics including potentially greenhouse gas emissions. However, currently this is not possible as the data that is available, in the context of a private debt portfolio, is not comprehensive enough to accurately calculate this type of metric. The ESG score serves as an analogous metric.

B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks.

The Fund’s Scope 1 and Scope 2 emissions would be minimal, as SEQI does not technically have any premises, people or operations. The Fund has worked with its suppliers in order to estimate its Scope 3 greenhouse gas emissions. The Investment Adviser is also working with the companies that the Fund lends to in order to improve this estimate.

C. Describe the targets used by the organisation to manage climate-related risks and performance against targets.

The Fund has three goals, including to strictly comply with our negative screening criteria and to progress thematic investing (positive screening). The primary target used is to improve year-on-year the portfolio’s weighted average ESG score.

Key developments

- The Fund has improved its average portfolio ESG score from 61.88 last year to 62.29 as at 31 March 2023, largely as a result of disposing of around £370 million of loans with a lower weighted average ESG score of 59.11 over the course of the current financial year. This increase also came from making £290 million of new loans that have a stronger environmental profile, such as in renewable energy and water solution projects, with a weighted average ESG score of 64.29. Thirdly, there was a net neutral contribution to the year’s improved score from the revisions in the ESG scores of borrowers. These upward and downward modifications came from changes in borrower behaviour (such as the implementation of effective environmental policies), furthering our requests for evidence and events that unfolded during the year (such as the issuance of a fine for an outdated waste code, which resulted in a downgrading).
- A questionnaire is sent to our investee companies annually, which includes requesting quantitative metrics, such as Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. This year we received a record response rate to our questionnaire at 92% of borrowers and, despite the most disclosure of carbon emissions we have had, there are still significant data gaps due to the limited resources of smaller borrowers to be able to measure their emissions.