

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 Company 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 Company has a number of Committees, which are tasked with focusing on various specific elements of climate-related risks and opportunities:

- > The ESG and Stakeholder Engagement Committee reviews, approves and monitors performance against the Company's ESG Policy. In furtherance of the Company'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. The Board recognises the value and importance to all stakeholders of organisations incorporating effective environmental, social and governance policies.
- > The Management Engagement Committee is responsible for encouraging the Company's service providers to minimise their avoidable greenhouse gas emissions and offset unavoidable emissions, thereby helping to minimise the Company's Scope 3 emissions.
- > The Audit Committee has responsibility for climate-related regulatory disclosures including SFDR and TCFD.
- > The Risk Committee oversees and advises the Board on its risk strategy and exposure including ESG risks.

The Company's 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, Margaret Stephens – Chair of the ESG and Stakeholder Engagement Committee – has been a Director and Chair of the Audit Committee of VH Global Sustainable Energy Opportunities Fund Plc ("GSEO"), which is classified as an SFDR Article 9 fund, since IPO in 2021. GSEO's sustainable energy infrastructure investments aim to support and accelerate the energy transition towards a net zero carbon world. The investment process uses the UN SDGs as the framework to achieve these objectives and it seeks to be leader in adopting sustainability reporting standards and requirements.

James Stewart, Chair of the Board, 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.

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.

Paul Le Page is the newest member of the Board of Directors and was the Audit and Risk Committee Chair for Bluefield Solar Investment Fund Limited ("BSIF"), one of the first LSE-listed investment companies to achieve Green Fund status in Guernsey and has been externally validated as an Article 8 fund under SFDR. He has recently retired from BSIF and is currently the Senior Independent Director for NextEnergy Solar Fund Limited ("NESF"). NESF is classified as an Article 9 fund under SFDR and is advised by the award winning ESG team at NextEnergy Capital.

Andrea Finegan is an independent consultant to the Board and the ESG and Stakeholder Committee. She is a Non-Executive Director and Chair of the Pantheon Infrastructure PLC ESG & Sustainability Committee. Andrea has a 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.

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

ESG, including climate-related risks and opportunities, has become embedded in 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 where possible and relevant. 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 fourth year running, the Company engaged KPMG to provide an independent limited assurance process under ISAE (UK) 3000 on the ESG scores for the Fund's portfolio. We understand that we were the first FTSE 250 investment fund to undertake such a process.
- > For the 2023/24 financial year, the scope of KPMG's assurance was extended to also cover the Fund's negative screening and thematic investing (positive screening) activities.
- > Following the establishment of the ESG and Stakeholder Engagement Committee in March 2022, the number of committee meetings that took place over the 2023/24 financial year was increased to four, all with full attendance. Some topics that were addressed in these meetings this year included key ESG themes for 2024 and beyond, the sustainability regulatory landscape, and refreshing the Company's ESG processes and policies.
- > During the year, action plans were devised for every asset in the portfolio. These action plans identify areas of improvement in borrowers' ESG credentials and/or the additional evidence that would be required to be able to fully assess certain indicators within the ESG scoring framework. These lists of actionable areas formed the basis of the ongoing engagement with the borrowers over the course of the year with the aim of making improvements, collecting more evidence of initiatives that are said to be in place, or mitigating risks. These activities are led by the Investment Adviser's dedicated ESG manager.
- > The Investment Adviser joined the TNFD Forum to better equip itself to deal with nature-related risks, and it signed the UN PRI's Statement on ESG in Credit Risk and Ratings in support of the integration of material ESG risks, including those related to the climate, into credit ratings.

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 Company 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. However, given the nature and terms of the loans provided i.e. short to medium term, they are not likely to feel the effect of many climate risks identified during the life of the loan.

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 Fund 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 Fund'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 Company 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.

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 Company 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.

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

Firstly, some sectors within the infrastructure market may become uninvestible 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 Fund is avoiding those sectors where there is a near-term or medium-term risk of them becoming uninvestible. Therefore, this potential impact can be considered long-term.

Should it happen, the Fund'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 Fund as lender can lose money.
- > The Fund'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 Fund lends to, and assessing their exposure to climate risk is part of that. In other words, the Fund is not likely to make a loan to a business that has poor resilience to climate change risk.
- > The investment portfolio is highly diversified in terms of the location of its borrowers and the sectors and subsectors they operate in. This will reduce the effect of many risks, such as technological disruption or unexpected regulation or legislation.

Key developments

- > This year, we increased the number of projects in the portfolio with ESG-related covenants in the loan documents with the aim to either manage risks or help capture opportunities related to material ESG areas. As at 31 March 2024, there are seven projects in the Fund's portfolio that have ESG-related covenants embedded in the loan documents. This number has been ticking up over the years and is a trend we plan to continue into the future.
- > Throughout 2023/24, sectors that are overly exposed to climate-related risks continued to be excluded through the Fund's negative screening criteria, which were updated and refined in March 2024.
- > Two of the Fund's positive investment themes are focused on climate-related opportunities: renewable energy assets and those enabling the transition to a lower-carbon world. The biggest investment the Fund made during the course of the year was to finance the acquisition of a waste biomass fuel supplier. The core purpose of this business is to source and treat waste wood that would have otherwise been sent to landfill. This then goes on to be used as a sustainable fuel for the generation of renewable energy, which helps to decarbonise the power generation sector and make progress along the climate goals of the Paris Agreement. During the period, the Fund extended five loans to assets that enable the transition to a lower carbon world, which made up 53% of the capital deployed to new acquisitions this year.
- > The Investment Adviser continues to increase data collection and work towards being able to provide climate scenarios.

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 Fund 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 Fund'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 Company has a comprehensive framework to identify and assess climate change risk for the Fund. This is fully integrated into its loan approval, monitoring, and risk management processes. During this year, the ESG scoring methodology was updated to reflect the continually evolving ESG landscape and best practices. These tweaks included refining definitions within the modifiers, clarification over which entity within the borrowers' corporate structures is used to assess E, S and G, and the treatment of projects depending on whether they are in the construction or operating phase. Some new subsectors were assigned unmodified base E scores, but the notable change was the reclassification of the nuclear subsector score in line with the EU Taxonomy's view of it as an environmentally sustainable activity. Additionally, the modifier "water and waste management plan" was decoupled into two separate modifiers.
- > The Risk Committee carries out regular assessment of the Fund's risks, with certain credit risks being escalated to it by the Investment Manager for approval. This year one of the revisions to the policy was to also escalate loans on the basis of certain ESG risks.
- > This year, the Investment Adviser conducted two firm-wide internal training sessions on ESG. The aim of these was to help to promote a consistent process and approach across the team as well as keeping analysts abreast of the latest ESG trends and developments.

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 ESG score is the key metric for assessing the environmental profile of its investments. This ESG scoring framework helps the allocation of 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 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 Company is looking to widen its range of metrics used, including potentially greenhouse gas emissions. Whilst the Company measures its own and its portfolio emissions to the fullest extent possible, currently this is not used as a KPI or target as the data that is available, in the context of a private debt portfolio, is not comprehensive enough.

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

Company emissions tCO2e	tCO ₂ e (FY23/24)
Scope 1	nil
Scope 2	nil
Scope 3 (operational)	44

Due to the nature of Company’s business, it produces no Scope 1 or 2 emissions. The Company’s Scope 3 emissions have been estimated in consultation with a specialist adviser and are conservative by design. These have been offset by the Company through the purchase of carbon offsets. Many of the Company’s suppliers already have their own emissions reduction and offsetting programmes in place.

Portfolio emissions	Total absolute tCO ₂ e (year ended 31 Dec 2023)	Total £
Scope 1	5,930,417	66%
Scope 2	364,102	58%
Scope 3	437,562	39%

The emissions figures have been collated from the data provided by the portfolio companies, without independent verification. The coverage rate is the percentage of the portfolio that has provided emissions information and is measured by NAV as at 31 March 2024. This should not be extrapolated for the whole fund due to the varying nature of investments. Whilst incomplete, this table shows the total emissions being produced by a sizeable portion of the companies to which the Fund lends.

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

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

Key developments

- > The Fund has improved its average portfolio ESG score from 62.29 last year to 62.77¹ as at 31 March 2024, largely as a result of its active engagement work with companies resulting in many existing positions increasing their ESG scores. This increase also came from disposing of around £414m worth of loans to companies with an average ESG score of 60.06. This also marks a notable improvement since the Company started calculating and measuring the portfolio’s ESG score in 2020 which was 59.61.
- > The Company has made progress in the measurement of its greenhouse gas emissions. This year, it is pleased to report the Company’s estimated emissions from operations as well as its total available portfolio emissions, as well as other quantitative sustainability metrics.
- > 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 the record response rate to our questionnaire from 93% of borrowers and, despite the highest level of disclosure of carbon emissions to date, there are still significant data gaps due to the limited resources of smaller borrowers to be able to measure their emissions. We will continue our efforts to source greenhouse gas information directly from borrowers and to explore options for estimating the remainder where we have data gaps to provide a fuller picture in the future.

1. KPMG has issued independent limited assurance over the selected data indicated with a reference number in the 2024 Annual Report. The reporting criteria and assurance opinion are available in the Sustainability Publications section of our website: www.seqi.fund/sustainability/publications/