

Infrastructure

Environmental, Social and Governance (ESG) Framework



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Section 1

Purpose

The purpose of this note is to:

- Summarize the framework of policies and guidelines relating to environmental sustainability, social responsibility and governance (ESG) applicable to, and applied by UBS Asset Management, Real Estate & Private Market's (REPM) Infrastructure business in its role of originating and actively managing investments in infrastructure assets and businesses; and
- Establish a framework against which a third party may assess the ESG performance of our infrastructure direct investments

Section 2

ESG Framework

REPM's Infrastructure business originates and manages strategies which invest in infrastructure assets over the long term. Our long term investment horizon underlines the importance of a strong ESG framework – we intend to hold and manage assets for periods of up to 15 years, and at our investors' discretion, for periods beyond.

Infrastructure has a clear policy framework which directly addresses the core aspects of ESG – selecting investments and managing our assets in a way which reflects:

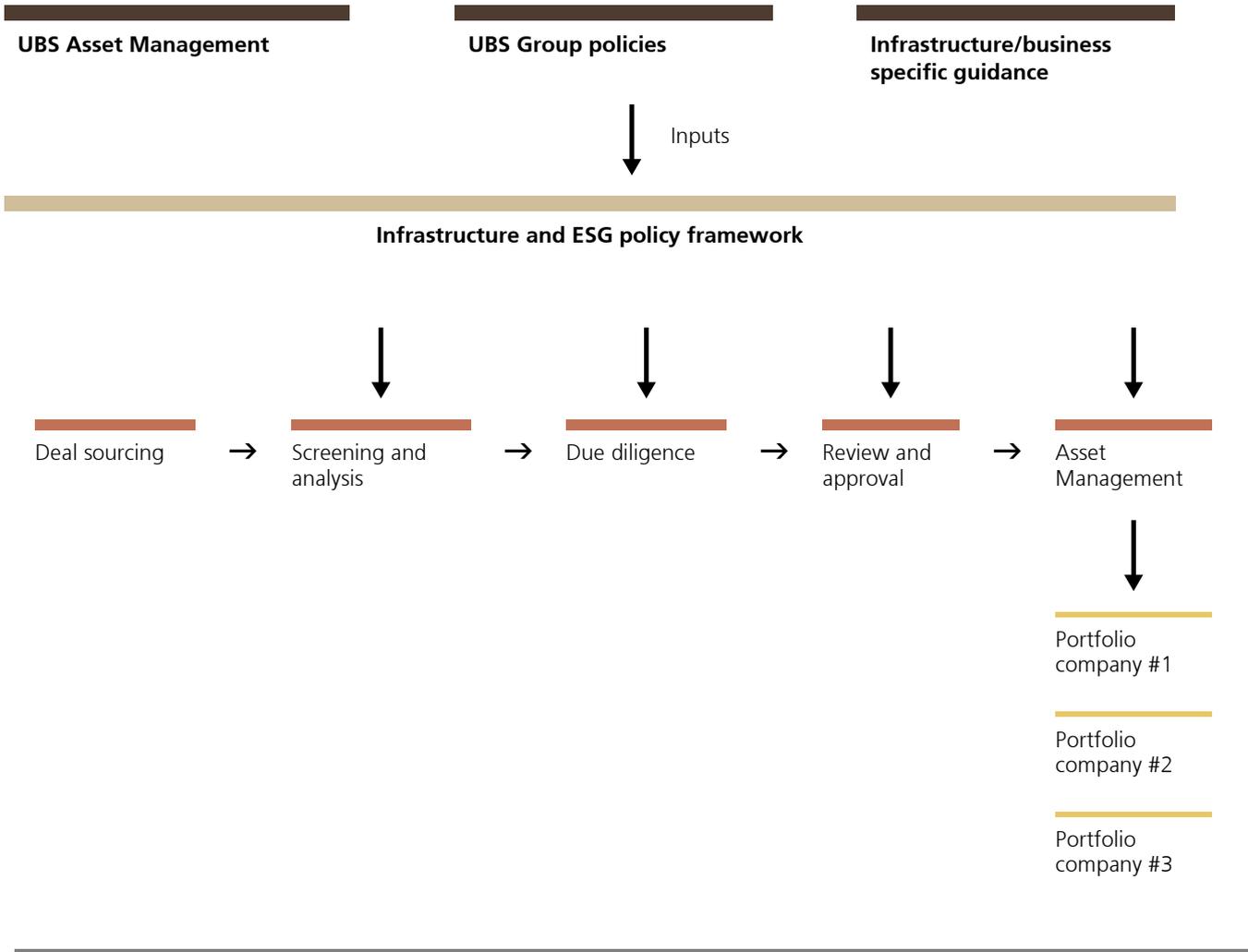
- Environmental sustainability – maintaining capacity of the ecosystem to provide raw materials as inputs and sink capacities to assimilate wastes over multiple generations;
- Social responsibility – taking responsibility for our impact on society by integrating social, environmental, ethical, human rights and consumer concerns into business operations and strategy; and
- Good governance – consistent with the rule of law, protects and facilitates the exercise of shareholders' rights, ensures equitable treatment of shareholders, recognizes the rights and encourages active co-operation of stakeholders, ensures timely and accurate disclosure, promotes board effectiveness to guide strategy and monitor management, and requires the board to remain accountable to shareholders

Furthermore, as a business unit of UBS Asset Management and part of the UBS Group, the policy framework and investment process of Infrastructure operate within a broader, robust, UBS Group Environmental and Human Rights Policy.

Infrastructure applies these policies during due diligence when reviewing investment opportunities, making new investments and on an ongoing basis when actively managing existing investments in the portfolio. When assessing the robustness of an investment's ESG framework, we have regard, inter alia, to the following:

- Internal processes for identifying and reporting material ESG risks and opportunities;
- Decision-making frameworks on how material ESG risks are managed;
- ESG capabilities in the organization and identity of persons responsible or accountable for ESG related issues;
- ESG related performance targets and links to the overall business strategy;
- Reporting and disclosure of company performance against ESG benchmarks (both internal reporting across employees and management and external reporting to the board, investors, regulators and key stakeholders); and
- Controls over the integrity of ESG data and reporting systems

Figure 1: REPM's Infrastructure business – ESG policy framework



Section 3

ESG Framework applicable to the manager

3.1 UBS Group

Infrastructure, as a business unit of UBS Asset Management and part of the UBS Group, is subject to the policies and guidelines applicable to UBS employee conduct and business activities. We highlight the ESG related elements below.

Environment, Human Rights and Social policies

The UBS Environmental and Human Rights Policy defines principles and responsibilities for managing environmental and human rights issues at UBS. The environmental policy was established in 1993, and our statement on human rights in 2006. Both were integrated into one policy in 2014. The policy aims to create long term value for the firm and its stakeholders, and ensures that:

- UBS identifies and manages potential adverse impacts to the environment and to human rights, as well as the associated environmental and social risks
 - UBS supports its clients in meeting their sustainable investing and financing needs
 - UBS promotes and respects the human rights of its employees, and provides a safe and healthy work environment
 - UBS improves its environmental performance and resource efficiency continuously, and aims to reduce the negative environmental and social impacts of goods and services it purchases
- World heritage sites as classified by UNESCO;
 - Wetlands on the Ramsar List of Wetlands of International Importance;
 - Endangered species of wild flora and fauna listed in Appendix 1 of the Convention on International Trade in Endangered Species;
 - High conservation value forests as defined by the six categories of the Forest Stewardship Council;
 - Uncontrolled and/or illegal use of fire for land clearance;
 - Illegal logging, including the purchase of illegally harvested timber (logs or round wood);
 - Child labor as defined by the International Labor Organization's Conventions 138 (minimum age) and 182 (worst forms)
 - Forced labor as defined by the International Labor Organization's Convention 29
 - Indigenous peoples' rights as defined by the International Finance Corporation's Performance Standard 7

Specific guidelines and escalation criteria apply to transactions with corporate clients engaged in certain areas of concern (where UBS will only do business under stringent criteria). The guidelines and escalation criteria apply to loans, trade finance, securities and loan underwriting transactions, and investment banking advisory assignments. Transactions in these areas trigger an enhanced due diligence and approval process:

- Soft commodities (palm oil, soy and timber)
- Power generation (coal-fired power plants, large dams, nuclear power)
- Extractives (hydraulic fracturing, oil sands, arctic drilling, mountaintop removal coal mining, precious metals, diamonds)

In 1992, UBS was one of the first financial institutions to sign the United Nations Environment Program's "Statement by Financial Institutions on the Environment and Sustainable Development." UBS was also among the first companies to endorse the UN Global Compact and is an original signatory of the Carbon Disclosure Project (CDP). Our global environmental management system is certified according to ISO 14001.

UBS has set standards in product development, investments, financing and supply chain management decisions, which include the stipulation of controversial activities and other areas of concern UBS will not engage in, or will only engage in under stringent criteria.

UBS will not knowingly provide financial or advisory services to corporate clients whose primary business activity, or where the proposed transaction, is associated with severe environmental and social damage to or through the use of:

Since January 2013, UBS does not provide credit facilities to nor conduct capital market transactions for companies that are involved in the development, production or purchase of cluster munitions and anti-personnel mines. UBS does not include securities of affected companies in its actively-managed retail and institutional funds or in discretionary mandates.

UBS has also established industry "sector guidelines" to support risk identification and assessment in certain high risk sectors (chemicals, forestry products and biofuels, infrastructure, metals and mining, oil and gas, and utilities). These guidelines provide an overview of key environmental and human rights issues that arise in the various lifecycles of the sector, and summarize industry standards in dealing with them.

Governance and Corporate Responsibility

The importance UBS attaches to responsible corporate behavior is reflected in the various documents and policies defining the rules and principles the firm applies to the behavior of its employees. Key among these is the Code of Business Conduct and Ethics of UBS, which is the basis for all UBS policies, guidelines and statements relating to each of the firm's employees' personal commitment to appropriate and responsible corporate behavior. Other documents and policies include:

- Employment of staff: equal employment and advancement opportunities
- Money laundering prevention: assisting in the fight against money laundering, corruption and terrorist financing
- Conflicts of interest: identifying, managing or avoiding potential conflicts of interest
- Whistle blowing protection: procedures for dealing with genuine concerns staff may have about suspected ethical breaches or misconduct within the firm
- Community affairs: a unified approach to community affairs globally
- Information security: adhering to the highest standards of information security

The Corporate Responsibility Committee has been established to support the Board of Directors ("Board") for UBS Group in fulfilling its duty to safeguard and advance the Group's reputation for responsible corporate conduct. It reviews and assesses stakeholder concerns and expectations for responsible corporate conduct and their possible consequences for UBS Group, and recommends appropriate actions to the Board.

3.2 UBS Asset Management

UBS Asset Management maintains the following applicable guidelines and policies:

- Global Corporate Governance Principles;
- ESG overview; and
- Principles covering proxy voting

In April 2009, UBS Asset Management became a signatory to the Principles for Responsible Investment (PRI). This is a global investor initiative that is designed to provide a framework for better integration of ESG issues into mainstream investment practice.

3.3 REPM Infrastructure

The ESG practices of Infrastructure are consistent with the policies and principles of UBS Group and UBS Asset Management, as discussed above.

Environment

Infrastructure applies an Environmental Framework which ensures no investments are made in environmentally controversial infrastructure businesses. In general, local environmental regulations are the primary focus during acquisition due diligence and asset management. Where local regulations are not considered to be consistent with international best practice, Infrastructure will consider a broader international framework in applying environmental responsibility.

REPM's Infrastructure business is also subject to specific policies within the UBS Asset Management ESG framework. These include the following obligations:

- During the transaction phase, Infrastructure is required to document due diligence and ongoing management procedures aimed at managing environmental impact. Primary Environmental Due Diligence must be performed by investment teams and outside experts in accordance with the documented investment process; and
- Environmental issues must be escalated for consideration by the Investment Committee, chaired by the Chief Investment Officer of Infrastructure

Social policies

Managing human capital and ensuring a safe workplace environment are essential elements of maintaining productivity, satisfaction and operational performance. Good performance in such areas typically reflects efficient operational processes and quality management. Similarly, the manner in which the board, management and employees of a company deal with each other and external stakeholders has implications for value and risk. Such considerations are central to due diligence during acquisition and asset management.

Governance

The establishment and oversight of appropriate governance arrangements is a critical element of the investment management process. The identification and realization of value creation opportunities requires the manager's active involvement in its investee companies which goes beyond board representation. Best practice includes:

- Establishing a climate of accountability within the operating company;
- Ensuring that the level and quality of information flows (including by establishing and monitoring key performance indicators) are sufficient to support effective accountability mechanisms;
- Coordinating appointment and performance appraisals of senior executives; and
- Establishing appropriate performance review and incentive arrangements

Section 4

ESG Framework applied to portfolio investments

ESG principles are embedded in our processes when identifying investment opportunities, conducting due diligence and actively managing investments in the portfolios we manage on behalf of our clients. In our view, delivery against a robust ESG framework reflects good management, delivers lower risk investments, greater community and employee support, and over the long term, stronger financial returns.

We assess the ESG credentials of our investee companies by benchmarking their policies, actions and procedures against ESG objectives. Notably, given the diverse nature of our existing, and potential future investments, such criteria have regard to relevant local, regional and global best-practice and the nature of the business, operations, surrounding environment and community in which the investee company operates

Environment

Climate change	Climate change and the price of carbon arising from carbon regulation impose current and future costs on companies which produce and consume carbon, or carbon-intensive goods and services. Climate change and carbon pricing will lead to significant changes in industry structures. Companies that reduce the carbon intensity of their (or others') operations also reduce carbon emissions and energy use and therefore lower operating costs. They also assist in reducing the impact of climate change on the community and their own operations in the future.
Environmental management systems and compliance	A company which demonstrates superior commitment, capacity and track record to its peers in the management of environmental risks presents a lower risk for investors. Robust systems, practices and controls reduce the regularity and consequences of operational incidents which impact on the environment and the costs of managing and resolving the incidence.
Environmental efficiency (waste, water, energy)	Reducing waste and minimizing the use of finite natural resources, particularly clean water and energy, will support continued growth, support the prosperity of future generations and reduces current and future costs of resources used by the company.
Other environmental issues	Other environmental risks depend on the nature of the investee company. Examples include toxic emissions, impacts on ecosystems and biodiversity and dependence on other natural resources. A company reliant on low cost environmental inputs or fails to address environmental issues is at risk of (i) lower future profitability if the price of environmental inputs rise; (ii) additional health and safety issues; (iii) fines or sanctions; (iv) an erosion of corporate culture; (v) inflicting permanent damage on biodiversity; and (vi) costly accidents.

Social

Workplace health and safety	Good performance typically reflects efficient operational processes and quality management. Addressing health and safety offers significant opportunities for (i) reduced costs and reduced risks via lower employee absence and turnover rates, fewer accidents, lower threat of legal action; (ii) improved standing among suppliers and partners; (iii) a better reputation with stakeholders; and (iv) increased productivity via healthier, happier and better motivated employees.
Human capital management	Managing human capital and the quality of controls are particularly important to maintaining productivity, employee satisfaction and operational and environmental performance. We seek to (i) ensure management and employees have appropriate skills to operate and manage the assets, operations and risks; (ii) encourage respect and diversity in the workplace; and (iii) enhance workplace flexibility.
Corporate conduct	The manner in which the board, management and employees of a company deal with each other, business partners, customers, shareholders and the community reflects on the overall quality of management, and the integrity and transparency of an organization. Good corporate conduct engenders trust and minimizes risks and costs.
Stakeholder management	Strong company engagement with all stakeholder groups is essential to good performance. Stakeholders include the shareholders, lenders, employees, suppliers, customers, the public sector, regulatory bodies and the broader community. Ensuring various stakeholder objectives are taken into account in determining strategy and managing operations reduces costs and risks through a stronger license to operate.

Governance

Corporate governance	Describes the system by which companies are directed and controlled: the responsibility of shareholders and the board. Long term value is enhanced and the risk of failure is reduced through effective board oversight based on the fundamental principles of good governance: accountability, transparency, probity and focus on the sustainable long term success.
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