

Sustainability

The Sequoia Economic Infrastructure Income Fund (“SEQI”) has a comprehensive approach to ESG.

During the year, the Fund continued to enact its environmental policies and strategies in compliance with its ESG Policy. The policy explains our ESG principles and how these are applied to investments; our processes to integrate ESG into every stage of investment decision-making; how we engage with borrowers; and the global initiatives that overlay our approach. We review the policy at least annually and last updated it in November 2022. The latest SEQI ESG policy can be found here:

www.seqi.fund/sustainability/publications.

This sustainability report provides an update on the commitments we have made to advance progress towards a sustainable future and to further evolve ESG at the Fund. Here, we also report on some of the key developments over the financial year 2022/23 and share clear, transparent ESG-related disclosures with our Shareholders.

Key highlights from the year

- Increase in the portfolio's weighted average ESG score, up for the third year running from 59.61 in 2020 to 62.29 in 2023
- Third year of independent limited assurance of SEQI's ESG scores by KPMG
- Record 92% response rate by portfolio companies to our annual ESG questionnaire
- Investment Adviser awarded Best ESG Infrastructure Investment Strategy 2022 globally by CFI
- Additional reporting on our Climate Pledge, UN SDGs, and SFDR Article 8 disclosures
- The Company and its Investment Adviser offset their calculable internal GHG emissions
- Following establishment in March 2022, three more ESG and Stakeholder Engagement Committee meetings took place during FY 2023 with full attendance
- Appointment of independent consultant to the ESG and Stakeholder Engagement Committee
- Investment Adviser appointed first dedicated ESG lead

Our ESG Goals

[Read more on page 26](#)

We have three ESG Goals:

1. Strictly comply with negative screening criteria.
2. Progress thematic investing (positive screening).
3. Over time, increase portfolio weighted average ESG score.

We periodically report on the Fund's progress against these goals in this annual sustainability report.

Our Climate Pledge

[Read more on page 29](#)

The Fund has made 10 pledges that lay out its commitment to environmental sustainability. Here, we also highlight some of our work or key milestones in relation to these pledges.

Case study

[Read more on page 32](#)

Each year, we discuss the ESG profile of one of our investments. This year's report features Workdry International Ltd, the UK's leading provider of mission-critical water and wastewater handling infrastructure leasing solutions.

UN Sustainable Development Goals ("SDGs")

[Read more on page 34](#)

Through investments in private infrastructure debt that are governed by the Fund's ESG policy and investment criteria, the Fund aims to align with nine of the United Nation's SDGs.

Regulatory reporting

Task Force on Climate-Related Financial Disclosures ("TCFD")

[Read more on page 35](#)

The Fund firmly believes that high-quality climate disclosure is essential for all Shareholders making long-term investment decisions. Here, we outline the Fund's summary of the TCFD disclosures made for financial year 2022/23.

Sustainable Finance Disclosure Regulation ("SFDR")

[Read more on page 124](#)

SEI reports under SFDR and is an Article 8 fund that seeks to promote ESG characteristics, with a focus on environmental, but it does not have sustainable investment as its objective. More information can be found in our Periodic Disclosure, which is annexed to the 2023 Annual Report, as is the Fund's Principal Adverse Impact Statement. The Fund's SFDR disclosures are also available on the website.

Global initiatives

UN Principles for Responsible Investment ("PRI")

In May 2019, the Fund's Investment Adviser, Sequoia Investment Management Company, signed up to the UN PRI. This proponent promotes six high-level principles, which are fully incorporated into the Fund's investment processes and decisions. Our Investment Adviser's public Transparency and Assessment Reports are available on the UN PRI website, and they will be reporting again in the 2023 cycle.

UN Global Compact

SEI's business and its investment activities are operated in accordance with the 10 principles of the UN Global Compact.

ESG Goals: Progress report

1. Strictly comply with negative screening criteria

The following sub-sectors or asset types are excluded:

- Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities, and facilities involved in tar sands. Note that midstream assets such as pipelines are not necessarily excluded but are subject to ESG scoring as set out below.
- Infrastructure related to mining thermal coal.
- Electricity generation from coal.
- Military infrastructure, such as military housing.
- Alcohol, gambling, tobacco and pornography are already excluded by SEQI's investment criteria.

For the financial year 2022/23, we can confirm that SEQI did not have any exposure to any of these sub-sectors or asset types and thus achieved 100% compliance with our negative screening criteria.

2. Progress thematic investing (positive screening)

SEQI has three ESG investment themes. Positive screening will be employed to increase the Fund's exposure to these investment themes, subject to existing concentration limits.

- Renewable energy, such as solar, wind and geothermal generation, and directly related businesses including companies that supply renewable energy.
- Enabling the transition to a lower carbon world, such as grid stabilisation, electric vehicles, traffic congestion reduction, and the substitution of coal by gas.
- Infrastructure with social benefits, which provides for basic human needs (such as clean water and food security) or brings a positive change by addressing social challenges and inequalities (such as healthcare, education and affordable housing) or advancing society as a whole (such as progressing telecommunications).

As at 31 March 2023, thematic investing covers 72% of SEQI's investment portfolio. Below is the breakdown across each theme as well as some anonymised investment examples in each:

13.3%

Renewable energy

- A diversified US renewables business
- Offshore wind turbine repair vessels
- US residential roof solar panel business
- Spanish solar power portfolios
- Ground-mounted solar projects in Poland
- UK landfill gas

30.0%

Enabling the transition to a lower carbon world

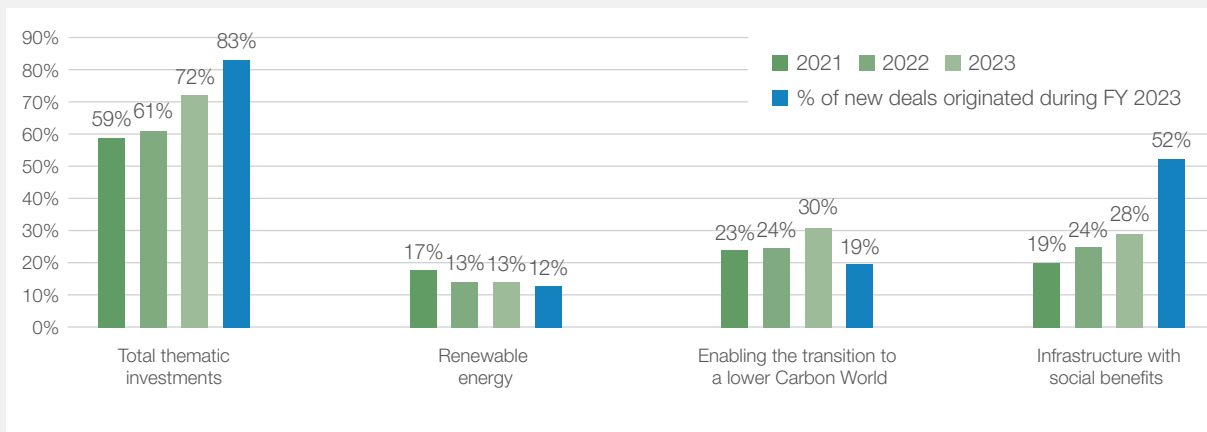
- German combined cycle gas turbine plant
- Grid enhancement assets such as peaker plants
- US gas pipelines and other midstream assets
- Nordic specialist shipping of liquid natural gas
- Efficient transportation projects reducing congestion

28.4%

Infrastructure with social benefits

- Telecom towers
- UK healthcare specialists
- Student housing in a range of jurisdictions
- Broadband providers connecting residents and businesses to fibre
- Essential and emergency water handling solutions

Thematic investments



3. Over time, increase portfolio weighted average ESG score

Some infrastructure assets (for example, the electricity grid) are neither excluded through negative screening nor positively selected through thematic investing; therefore, it is necessary to have a methodology to assess the ESG profile of these projects.

The ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the “direction of travel”. For example, a business that currently significantly contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution.

The ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower’s credit rating (for example, weak corporate governance has a negative contribution to credit quality) but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile, and vice versa.

To facilitate ESG scoring during the investment process, the Investment Adviser designed an ESG scoring model that must be completed prior to bringing a new investment to the Investment Committee.

The intention also is to provide the credit analysts a guide for ESG considerations at the earliest stages of due diligence. Implementing the ESG model at the beginning of the deal lifecycle will flag assets with weaker ESG credentials much earlier. After origination, there is regular subsequent monitoring of ESG performance and a semi-annual review of the score for every investment.

Finally, the scoring methodology and model have been calibrated such that renewable energy projects with the most robust social and governance practices would receive a score of 100, and a power plant that burns thermal coal with no redeeming social or governance policies would receive a score of 0. Needless to say, the coal-fired power plant in this example would not make it past the Investment Adviser’s new business committee nor would it have reached this point of the investment process given the negative screening criteria.

For details of how the ESG score is compiled and derived, please see our ESG policy and publication of the ESG Scoring Procedures and Methodology here:

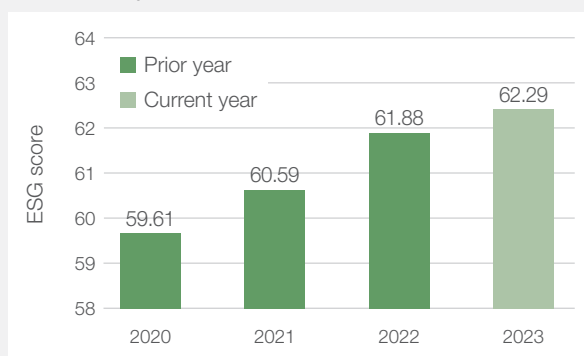
www.seqi.fund/sustainability/publications.

ESG Goals: Progress report continued

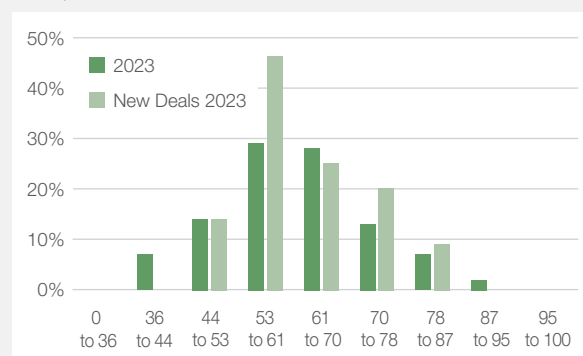
3. Over time, increase portfolio weighted average ESG score continued

ESG scores as at 31 March 2023

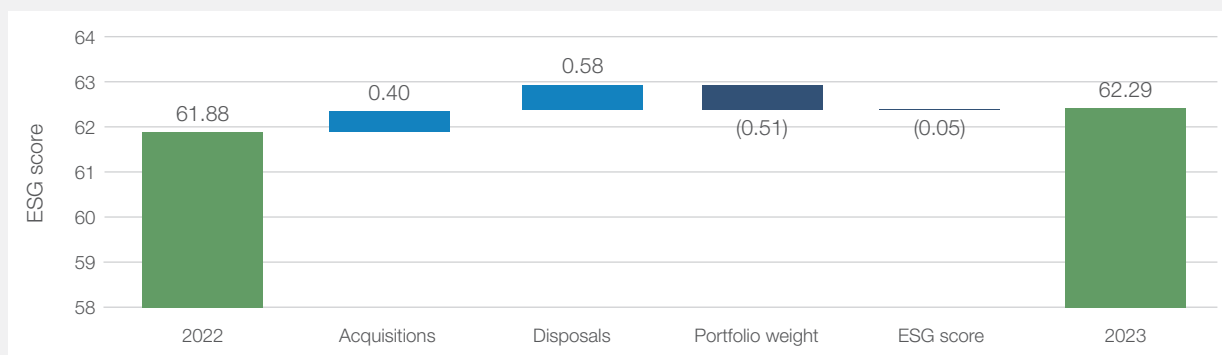
The portfolio's overall ESG score increased for the third consecutive year to 62.29¹ as at 31 March 2023.



The chart below represents a comparison of the portfolio's ESG profile between 31 March 2022 and 31 March 2023.



The main reasons for the change in the weighted average score from 61.88 the previous year to this year's score of 62.29¹ are summarised in the chart below:



Acquisitions: The effect of new investments

As at 31 March 2023, we held around £290 million of new investments acquired during the year with a weighted average ESG score of 64.29¹. The higher ESG score of the new loans results from the effective application of our ESG principles in our investment process. Some of the high-scoring new loans include: (i) a 66MW portfolio of ground-mounted solar projects in Poland, (ii) a provider of essential and emergency water handling infrastructure solutions in the UK, and (iii) a national provider of complex care services for adults, young people and children in the UK.

Disposals: The effect of removing the maturing and sold positions from the portfolio

Disposals were the most significant contributors to the score improvement during the year. Since March 2022, around £370 million of loans with a weighted average ESG score of 59.11 were removed from the portfolio. Disposals included an oil midstream company in Sweden (the lowest ESG scoring in the portfolio) and a ship-owning company.

While the Company is not in control of unscheduled repayments, we expect the long-term impact of repaying credits on the portfolio's ESG score to be positive due to pre-existing and weaker ESG investments reaching maturity or being sold and the proceeds being re-invested in higher-scoring assets.

Portfolio weight: The effect of changes in the weights of the loans on the portfolio

The resultant 0.51 negative impact comes from the increased weighting of low-ESG-scoring loans and the reduction in weight of high-ESG-scoring loans, though this was skewed by a high-scoring borrower going into administration.

ESG score: The effect of changes in ESG score

Throughout the year, there were upward and downward revisions in the ESG scores of borrowers that came from changes in their 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).

1. ESG score is included in the scope of KPMG LLP's limited assurance (see www.seqi.fund/investors/documents-circulars).

Our Climate Pledge

1. We support the goals of the Paris Agreement to limit the global average temperature increases to well below 2°C and to pursue efforts to limit the temperature increase to 1.5°C.

We have made progress in collecting data from companies we lend to in order to start to better gauge alignment with the Paris Agreement. We also continue our engagement with borrowers and have started to identify areas of improvement that we aim to work with the companies on over the course of the year; some of these action plans would be supportive of the goals of the Paris Agreement.

2. We support the goal of the world reaching net-zero carbon emissions by 2050.

There are several initiatives in place to progress the measurement and reduction of our carbon emissions, some of which are outlined below.

Carbon initiatives at the Company and Investment Adviser

Supplier engagement

The Board has taken steps to assess the Company's carbon footprint by engaging with each of its key suppliers on their ESG activities, with a particular focus on the steps being taken by each to reduce their greenhouse gas emissions.

Business travel

Where possible, the Company and Investment Adviser look to replace international business travel with video conferencing. For instance, some Board Committee and other ad hoc meetings have been held online in place of requiring flights to Guernsey, where appropriate.

The Investment Adviser promotes healthier journeys to work and seeks to reduce environmental pollution caused by travel through, for example, its bike-to-work scheme, where loans are offered to employees wishing to purchase cycles and associated safety equipment as a tax-free benefit.

Carbon offsetting

The Board recognises carbon offsetting as the last stage of an effective net-zero strategy. To this end, the Company has acquired credits in schemes issued through the Gold Standard marketplace, which provides an "off-the-shelf" route for organisations to acquire credits which can be retired immediately as part of their emissions reduction strategy. The Board has also invested in long-term carbon offsets via UK peatland restoration through a development project validated under the Peatland Code. Damaged peatlands are estimated to emit around 4% of the UK's total annual greenhouse gas emissions. The amount to be committed by the Company, partly funded by contributions from each Director and Consultant of 1% of their annual fees from the Company, has been allocated as c.25% towards immediate offsets via the Gold Standard in respect of the year ended 31 March 2022, and 75% committed to investment in UK peatland restoration to offset emissions anticipated to be generated over a minimum of the next three financial years, pending verification of the Peatland Code certified units. Key suppliers have also been invited to contribute towards the scheme as part of their environmental initiatives.

The Investment Adviser is run on a carbon-neutral basis and is committed to continuing this policy. They believe that this is the right thing to do as a business to help to meet the international target set out by the 2015 Paris Agreement to limit global warming to below 2°C. They achieve this by offsetting their carbon emissions (predominantly international travel, IT and office space) by planting Giant Sequoia trees in the UK, and investing in other carbon capture schemes. Wherever possible, it is also their preference to reduce carbon emissions, rather than offsetting them. This is achieved through energy efficiency, reduced international travel and green procurement. Offsetting, therefore, is primarily aimed at unavoidable emissions.

Our Climate Pledge continued

3. We will endeavour to dispose of investments which are contrary to our ESG policy

After adopting its ESG policy in the 2020/21 financial year, the Company began disposing of, or in some cases waiting for the natural repayment of, its loans to borrowers in sectors that were not permitted under the ESG policy. This process was completed during the 2021/22 financial year. This means that the Fund no longer has exposure to sectors with the highest levels of transition risk.

4. We will use our ESG policy to score our loan book and, by investing in higher-scoring opportunities and disposing of lower-scoring opportunities, aim to improve the ESG score of our loan book over time where possible.

We have followed this strategy effectively and, as a result, the average weighted ESG score for the SEQI portfolio measured at 31 March each year has consistently increased: 59.61 (2020), 60.59 (2021), 61.88 (2022), 62.29¹ (2023).

5. We will engage proactively with the companies we lend to, to encourage them to work towards the goals of the Paris Agreement.

The Fund takes a proactive approach to managing its loan book and engages with borrowers in relation to ESG topics in a number of important ways, including implementing ESG-related loan terms, requesting completion of annual ESG questionnaires, regular monitoring of and engagement on any key ESG issues, and voting on loan modifications. More detail is set out in the Fund's ESG policy.

6. We will, where appropriate, embed covenants into loan agreements to oblige our borrowers contractually to adopt and comply with appropriate environmental policies.

Our approach to embedding covenants into loan agreements is covered in more detail in the Fund's ESG policy. This includes terms on environmental considerations, such as covenants to comply with environmental regulations, manage pollution, reduce carbon emissions, and adopt water and wastewater management strategies. For instance, we incorporated covenants into one of our loans that sets a strategic goal for the company of transitioning from landfill gas to solar over the term of our loan. We track progress towards this goal, and it is the focus of many of our engagements with the borrower.

In addition, we have provisions within the Fund's revolving credit facility linking the pricing to the Fund's ESG score.

1. ESG score is included in the scope of KPMG LLP's limited assurance (see www.seqi.fund/investors/documents-circulars).



7. We will embed covenants into loan agreements to oblige our borrowers contractually to use appropriate environmental metrics.

Our approach to embedding covenants into loan agreements is covered in more detail in the Fund's ESG policy. This includes terms on reporting requirements on environmental metrics such as carbon footprint, energy intensity and recycling ratios. For instance, the refinancing of one of our legacy loans allowed us the opportunity to add a clause requesting the borrower completes our annual questionnaire on a best efforts basis, which includes various environmental measurements, including Scope 1, Scope 2 and Scope 3 emissions as well as energy consumption and waste metrics.

8. We will engage with regulators and policy makers wherever we believe we can accelerate or improve action to combat climate change.

We have not had the opportunity to engage with regulators and policy makers in relation to combating climate change this year but hope to do so in the future when possible.

9. We will speak out publicly and build or support coalitions of like-minded investors and thought leaders in order to drive change where we believe this will be effective.

At the Annual and Interim Results presentations, we discuss points of note on ESG. On an ad hoc basis, Sequoia will talk about its view and approach to ESG. This year for instance, Proximo interviewed Steve Cook, a Director and the Head of Portfolio Management at the Fund's Investment Adviser, about how infrastructure lenders can best assess the risks and opportunities associated with decarbonisation and the energy transition amongst other topics. The Investment Adviser's Chief Risk Officer, Anurag Gupta, was a panellist at the Nuclear Energy Agency Financing Conference hosted by IFNEC and the OECD's NEA. Here he spoke on new nuclear financing and low-carbon energy generation. This year, he was also an independent judge at the IJInvestor Awards 2022, which are designed to recognise and celebrate the leading funds' M&A activity in the energy and infrastructure markets.

10. We will report to our investors our compliance with our ESG policies.

This annual sustainability report reports on our compliance with our ESG policy, such as progress towards our ESG Goals and examples from the application of our approach to engagement.



Case study

Workdry

£50.0 million

Invested

9.53%

Yield to maturity

3

ESG-linked KPIs

Link to ESG



Infrastructure with
social benefits

During the period, the Company invested £50 million in a senior secured facility to support Arcus Infrastructure Partners with the acquisition of Workdry International Limited. Workdry is the UK's leading provider of mission-critical water and wastewater handling infrastructure leasing solutions and has been operating for over 75 years.

Workdry's origins date back to 1946. During the early years, Workdry was a diversified asset hire business encompassing generalist plant and scaffolding hire as well as pump manufacturing and rental. Over the last decade, the business transitioned from a "drop and go" pump rental provider into a leading engineered water solutions specialist with ambitions to continue driving profitable growth. The company currently operates three business divisions: Selwood Limited Pump Rental Solutions, Siltbuster, and Selwood Pump Sales & Manufacturing. Through its three divisions, the company delivers temporary water and wastewater pumping solutions as well as modular water treatment and processing solutions to both water utility companies and customers in the infrastructure and construction sector.

Being the UK's leading provider of essential and emergency water and wastewater handling infrastructure solutions, the company's core operations are inherently environmentally and socially friendly. Arcus and Sequoia seek to manage their portfolios and portfolio companies in a way that drives improved ESG outcomes and have therefore, alongside the other syndicate lenders, agreed to issue the acquisition financing debt as a sustainability-linked loan. This was done by building in an ESG ratchet mechanism based on three defined KPIs in the margin. The three KPIs were identified as the following: Scope 1 transport emissions, Scope 2 emissions, and GRESB score. The KPIs on Scope 1 and Scope 2 emissions incentivise the reduction of the company's direct operational environmental impact. The KPI on the company's GRESB score aims to encourage improvement in its overall commitment and adherence to high environmental, social and governance criteria.



Arcus has a good track record at improving GRESB scores over time which is seen as a credit positive. If all KPIs are met at each of the annual test dates, the margin reduces by 0.10% per annum. There is a lower 0.066% p.a. reduction for successful completion of two of the KPIs and no adjustment for just achieving one KPI. If, however, none of the KPIs are met, the margin increases by 0.033% p.a.

The company's products and services that they provide to customers have a hugely positive impact on the environment and the local community. By providing a deep network of equipment that can serve both planned and emergency wastewater pumping and treatment solutions, Workdry's divisions contribute to the avoidance of severe damage from sewage overflow events. Further, the company has introduced various measures to help tackle climate change, for example 85% of its personal vehicle fleet is hybrid or electric and most sites have EV charging, its pump fleet can largely operate on renewable hydrotreated vegetable oil, and LED lighting is installed as part of building refurbishments. The company takes an innovative approach to addressing environmental issues across the spectrum; they were the first company in the sector to develop pump canopies to reduce noise pollution, which have been rolled out across the fleet.

We recognise that Workdry offers some of the more detailed disclosures on environmental metrics within the SEI portfolio, including carbon emissions and energy consumption, but also on the social side such as reporting on gender pay gap and health and safety. The group has a newly implemented ESG policy which covers of pursuit of various SDGs, specifically Clean Water and Sanitation (SDG 6), Decent Work and Economic Growth (SDG 8), Industry, Innovation and Infrastructure (SDG 9), Responsible Consumption and Production (SDG 12), Climate Action (SDG 13), and Life Below Water (SDG 14). The group is currently working on an all-encompassing Responsible Business Framework, which we look forward to reviewing. Workdry has shown a great receptivity to our engagement, and we hope for more of the same to come as we continue to progress the positive working relationship we have fostered.

UN SDGs

Through the investments it makes and ESG processes and principles in place, the Company can most clearly track, align with, and report on the following nine UN SDGs:



We have investments in the healthcare sector, such as in a provider of long-term care for adults with learning difficulties, specialising in care for people with intellectual disability, autism, mental health diagnoses, and acquired brain injuries with complex behavioural needs.



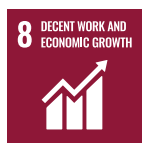
We invest in the education sector; for example, we have provided a loan to a company that repurposed a large office building into a school. We would also actively seek further investments in education, as this sector would come under our positive screening theme of infrastructure with social benefits.



We look to invest in infrastructure with social benefit as one of our positive screening pillars, which includes clean water. For instance, we have provided funding to the leading UK provider of essential and emergency water and wastewater handling infrastructure leasing solutions. The services include water treatment, flood relief and burst pipe repair.



We have provided capital to numerous projects in the renewable energy and energy efficiency space. Current examples include a portfolio of over 50,000 residential solar PV systems across 16 US states, the UK's largest generator of lower carbon power from captured methane, and a Danish offshore wind turbine maintenance company.



SEQI's strategy is to invest in economic infrastructure. These are fixed, tangible assets that make up physical capital, one of the three factors of production and essential for economic growth, capital formation and final consumption stages of GDP. We also support decent work by bolstering health and safety and wage policies at borrowers.



SEQI's core purpose is to provide regular, sustained, long-term loans to economic infrastructure industries. We provide capital to a diversified portfolio of small- and mid-sized private companies globally. Our TMT investments, such as in broadband, connects societies and increases access to information and communications.



We invest in infrastructure that connects communities in a sustainable way, such as a passenger rail project that has the most fuel-efficient locomotives. We also finance a bypass motorway, which reduces congestion, and have implemented many initiatives to tackle climate change, including a net zero strategy and carbon reduction plan.



As well as considering our own supply chain, we monitor policies and metrics around waste production and management, air pollution, materials use and recycling, and biodiversity at all of the companies we lend to and will engage to drive improvement in these areas where necessary.



SEQI has made a set of climate pledges and committed to three ESG Goals. This includes progressing thematic investing and increasing the portfolio's weighted average ESG score. As such, our investments will increasingly fund the most sustainable sectors/sub-sectors within economic infrastructure to help support long-term climate action.