RESOLUTION CAPITAL

QUARTERLY ESG AND STEWARDSHIP REPORT

GLOBAL LISTED INFRASTRUCTURE STRATEGY

JUNE 2023

ESG Commentary

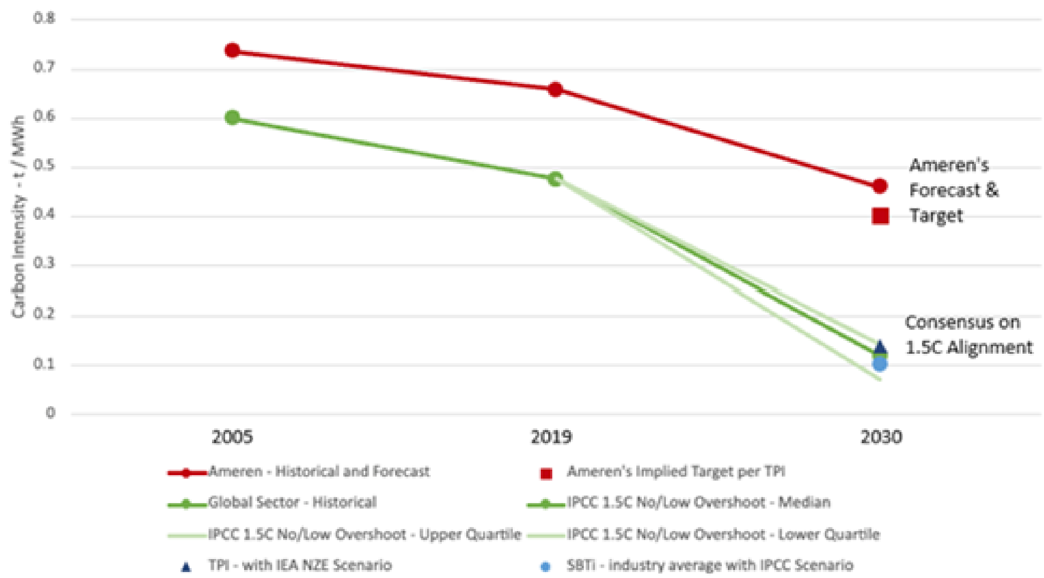
Shareholder action pushing Ameren to accelerate decarbonisation plans

At its Annual General Meeting (AGM) in May this year, Ameren (AEE) faced a shareholder proposal regarding its Scope 1 & 2 emissions targets. The proposal claimed that AEE's current net zero target was not aligned with the requirements of the Paris Agreement or International Energy Agency's (IEA) Net Zero Emissions by 2050 scenario. It was requested that the company disclose short-, medium- and long-term Scope 1 and 2 GHG emissions targets that are aligned with these requirements, as well as plans to achieve those targets.

AEE currently has carbon emissions reduction targets of 60% by 2030, 85% by 2040 and net zero by 2045. Their current decarbonisation plan involves the progressive retirement of its coal generation fleet, to be completed by 2042 and the build out of renewable energy generation plus battery storage capacity. This decarbonisation plan has been agreed with the relevant state regulators as part of their Integrated Resource Plan. This means that the company will implicitly move outside the already agreed upon framework with regulators should they deviate from their current plan.

The shareholder resolution asked AEE to accelerate these plans, claiming that aligning with the carbon reduction requirements of the Paris Agreement or IPCC's 1.5°C scenarios could provide a significant earnings growth and capital deployment opportunity. The chart below shows the comparison between AEE's carbon intensity reduction trajectory and those of the 1.5°C scenarios out to 2030. Additionally, one of shareholder resolution's main contentions is that under IEA's Net Zero by 2050 scenario, electricity generation in developed markets should be net zero by 2035 for the global economy to achieve net zero by 2050.

Ameren's carbon reduction pathway compared to 1.5°C pathways for the electricity sector



Source: Ameren, UN IPCC, Transition Pathway Initiative, 2023

Prior to the AGM, we engaged with AEE to better understand the differences between these two approaches and the company's view on the shareholder proposal. AEE has had regular shareholder engagements over many issues, including recently regarding disclosure and reduction of Scope 3 emissions. While they mentioned their ambition to achieve net zero status as early as practicable, AEE said that there were constraints including the requirement for regulatory approvals for generation retirements, balancing affordability, and reliability concerns. Ultimately their decarbonisation plans are contingent on achieving the change in generation mix, which is contingent on the Integrated Resource Plan approved by state regulators.

We decided to vote FOR the resolution since we believe that AEE's currently disclosed carbon reduction targets could be more ambitious. Over time there will be increasing drivers and opportunities to retire coal generation ahead of what is currently planned. Their portfolio has strong potential to decarbonise on current economics. Ultimately, we believe that shareholder interests and decarbonisation are positively linked so AEE should increase their shareholder engagement to demonstrate their alignment with Paris Agreement targets. Unfortunately, this resolution only received 13.6% votes FOR, meaning that AEE does not have to take any further action at this stage.

Portfolio Metrics

For the portfolio, a key focus is on taking advantage of the transition to a net zero emissions world. The portfolio seeks to achieve this by investing in companies that are able to align with the decarbonisation requirements of the Paris Agreement by 2050.

We compare our portfolio emissions reduction performance to the benchmark for the portfolio, FTSE Developed Core 50/50 Infrastructure Index using ESG data sourced from MSCI ESG Research, Bloomberg and ISS.

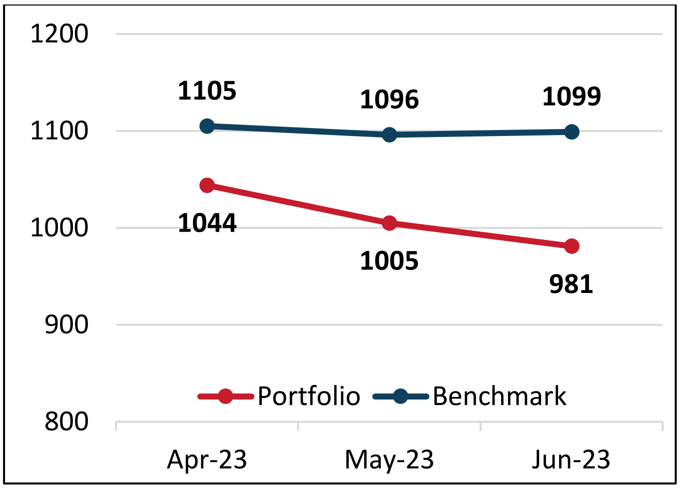
Carbon Emissions

The carbon emissions and carbon intensity of the portfolio versus the index are monitored and measured on a quarterly basis. The charts below illustrate the carbon intensity of the portfolio versus the index, as of 30 June 2023, separated into Scopes 1 and 2, and Scope 3 emissions. Pleasingly on both measures, the portfolio holdings remain lower than that of the index, especially for Scope 3 emissions, given our much lower holdings in companies with gas generation, and lower holdings in the midstream sector.

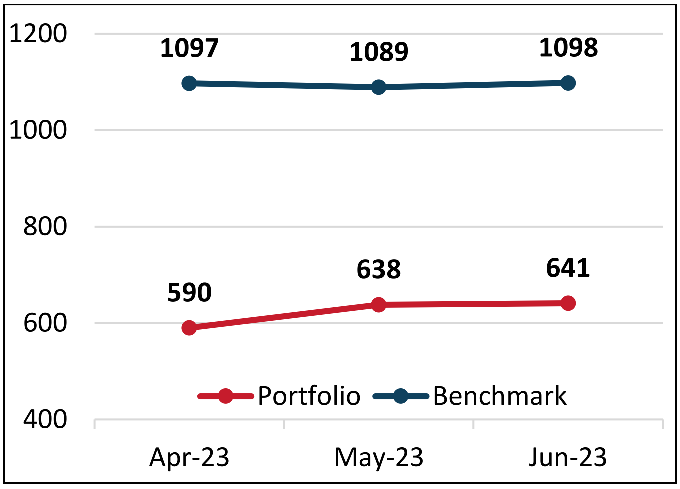
Achieving portfolio carbon emissions below that of the benchmark can be attributed to a combination of sector positioning and stock selection in the portfolio. While the portfolio has a significant position in electric utilities, the selection within that sector results in a carbon emissions intensity slightly lower than the index (981 ton/US$1m Rev vs 1,099 ton/US$1m Rev) for Scope 1 and 2 emissions. Scope 1 and 2 emissions within the portfolio have slightly decreased over the last three quarters due to a reduction in our exposure to the more carbon intensive electric utilities companies (PPL, XEL and EXC), with a smaller contribution from increasing positions in the tower companies AMT and CLNX, as well as an electricity transmission company ELI, all of which have much lower carbon intensities than the portfolio average.

Having no holdings in companies in the gas and diversified utilities sectors result in a significantly lower Scope 3 emissions intensity for the portfolio compared to the index (641 ton/US$1m Rev vs 1,098 ton/US$1m Rev).

Carbon intensity – Scope 1&2 (Ton/US$1m Rev)



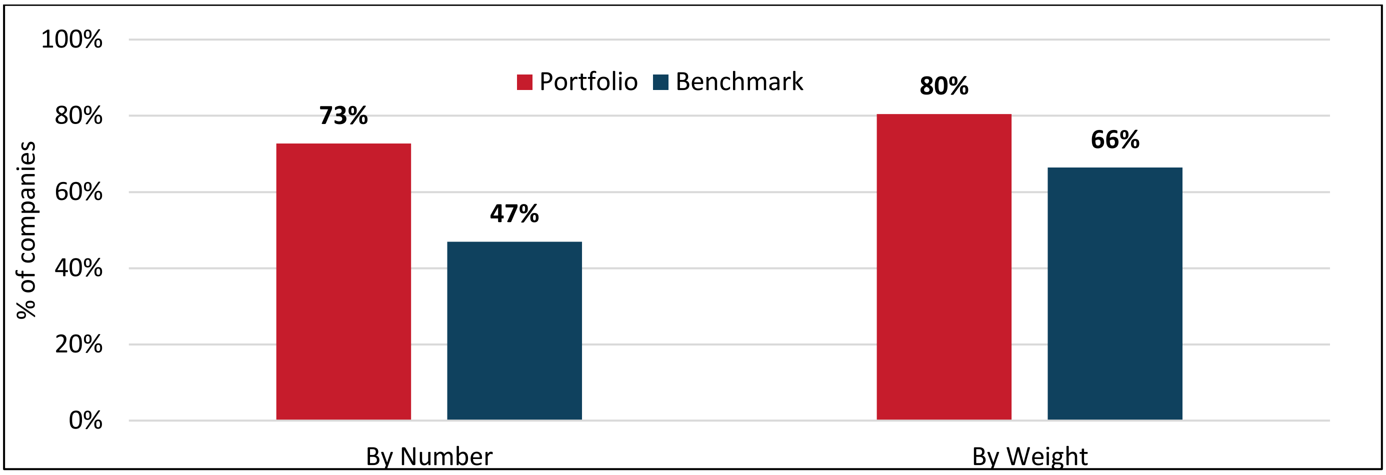
Carbon intensity –Scope 3 (Ton/US$1m Rev)



Source: ResCap, MSCI ESG Research
Index: FTSE Developed Core 50/50 Infrastructure

Another measure we are monitoring to gauge a company's decarbonisation ambitions is whether a company is targeting a net zero state, or alignment with the Paris Agreement. The proportion of portfolio companies with net zero carbon emissions targets is show in the chart below, with 80% of the portfolio, by weight, having a net zero target by 2050, compared to 66% of the benchmark.

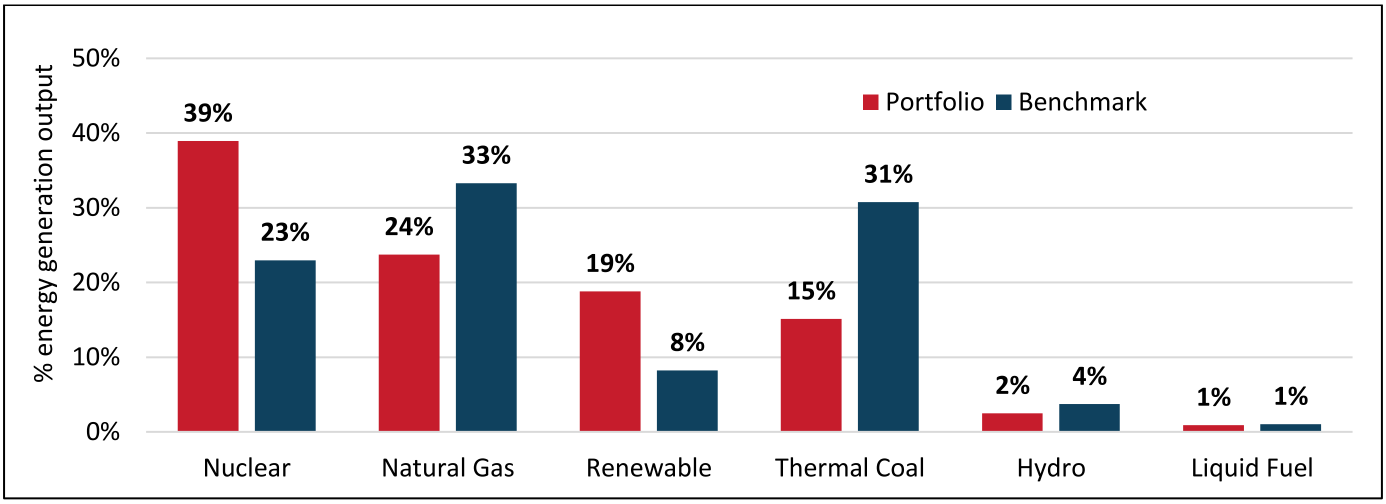
Proportion of companies with net zero carbon reduction targets by 2050



Source: ResCap, MSCI ESG Research, Company disclosure, 30 June 2023
Index: FTSE Developed Core 50/50 Infrastructure

Our focus on Paris Alignment also means we are looking closely at the utilities sector and their efforts to decarbonise, since this is a significant part of our investable universe, both in terms of market capitalisation and carbon emissions. Tracking electricity generation by source is of interest given this focus on decarbonisation and the transition to clean energy generation. The breakdown of electricity generation by source for the portfolio and the benchmark is shown in the charts below.

Proportion of energy generation output, by source, for the portfolio versus the benchmark



Source: ResCap, MSCI ESG Research, Company disclosure, 30 June 2023
Index: FTSE Developed Core 50/50 Infrastructure

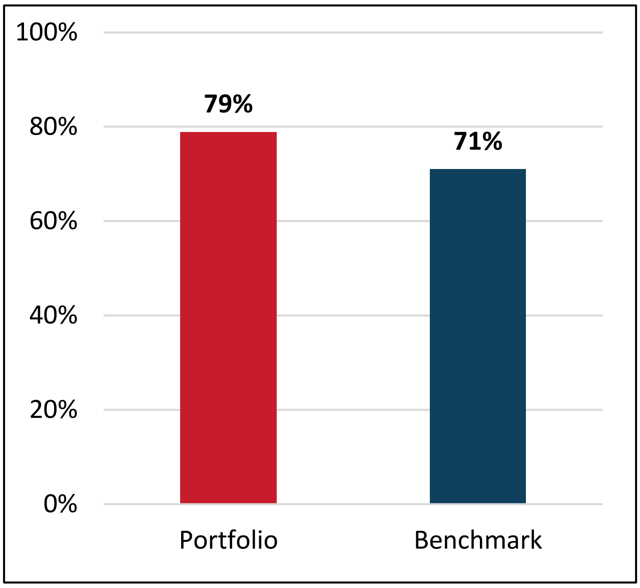
EU Taxonomy Alignment

The EU Taxonomy enables the European Union to classify and define activities that are “sustainable” and “green”, i.e. if an activity or a company aligns with the EU Taxonomy’s requirements it is considered sustainable and contributes to the achievement of the broader goals of the Paris Agreement.

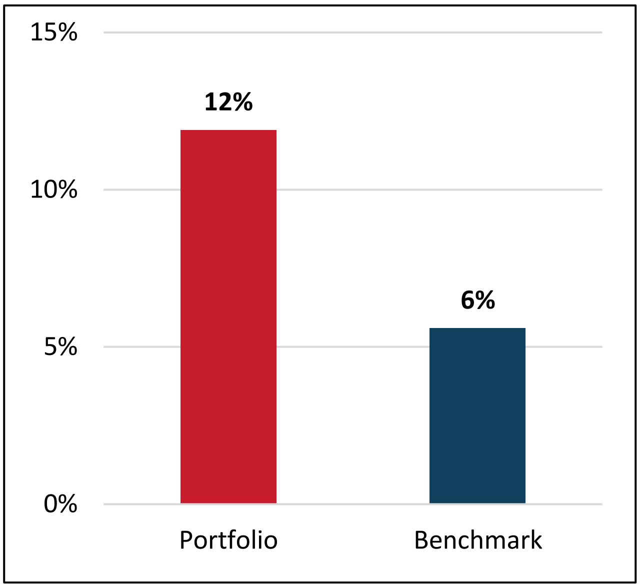
Using data from MSCI ESG Research, we can identify the potential alignment of our portfolio companies to the EU Taxonomy’s minimum criteria. This includes doing no significant harm to the six environmental criteria; making a substantial contribution to climate change adaptation and mitigation; and satisfying the minimum safeguards of UN Global Principles on Business and Human Rights and OECD Guidelines.

The charts below show the proportion of company revenues that are generated from activities that are eligible for EU Taxonomy alignment and that are deemed to satisfy the requirements of the EU Taxonomy, for the portfolio and benchmark. The chart on the left shows the estimated proportion of revenues generated by activities that are covered by the EU Taxonomy, i.e. these revenues can become aligned over time. The chart on the right shows the estimated proportion of revenues that are potentially aligned to the EU Taxonomy.

EU Taxonomy Eligible Revenue (% Revenue)



EU Taxonomy Aligned Revenue (% Revenue)



Source: ResCap, MSCI ESG Research, 30 June 2023
Index: FTSE Developed Core 50/50 Infrastructure

These charts show the focus of the portfolio on companies that can transition to a net zero world, with a greater potential alignment to the requirements of the EU Taxonomy, compared to the benchmark. This is due to the bias away from oil & gas transportation & storage and gas utilities, and towards companies with renewable generation and those utilities that have clear decarbonisation plans.

Proxy Voting

In the three months to 30 June 2023, Resolution Capital voted on 341 resolutions at 25 shareholder meetings. We voted against 25 resolutions and our rationale for voting against these proposals and other significant votes are detailed below. Note that in all cases where we intend to vote against resolutions, we communicate our rationale to the company ahead of the vote.

Proxy voting overview

30 June 2023	Vote statistics
Meetings	25
Resolutions	341
Voted For	314
Voted Against	25
Other Significant	0
Abstained	0
No Action	0

Votes against management

Infrastrutture Wireless Italiane SpA (INWT-IT)

In April we voted against two resolutions related to INWT's remuneration policy and equity compensation plan.

We voted against these resolutions given gaps in disclosures of historic and future Long Term Incentive Plan (LTIP) targets, with a significant portion of this award being contingent on the achievement of performance targets that are not disclosed. The company also made severance payments to the former CEO, Giovanni Ferigo, that were greater than two years' salary, which we considered to be excessive.

These resolutions were passed with 23% and 13% votes AGAINST, respectively.

Aeroports de Paris (ADP-FR)

We voted against two director elections and a share repurchase program at ADP's AGM in May.

We voted against the resolution seeking to authorise the company to repurchase up to 10% of its issued share capital. Our rationale for voting against this resolution was due to the company not being explicit about whether this could be used as an antitakeover defence without shareholder approval.

We voted against the election of the non-independent nominee, Stephane Raison, since there is a low level of independence on the board, currently only at 22%. Given the majority ownership of the French Government in the company, at 50.6%, the generally accepted market practice is to have 33% independent board.

We voted against the resolution seeking to appoint a "censor", which is a position included in some French company boards. Censors are typically used as advisors to the board, however they are not clearly defined in French law and have no legal liability towards shareholders. Our rationale for voting against this resolution is that the company does not clearly define the censor's role and yet the role will be paid the same amount as a non-executive director, without the same level of responsibility.

All resolutions were passed by shareholders at the AGM, with the share repurchases receiving 95.9% votes, election of Stephane Raison receiving 97% and the appointment of the censor receiving 95.3%.

Union Pacific (UNP-US)

At UNP's AGM, we voted AGAINST management on two resolutions, one related to the ratification of auditors and one related to a shareholder proposal.

We voted against the ratification of Deloitte as auditors because they have been in place since 1967. We encourage rotation of auditors at least every 10 years to promote independence and rigour in the auditing process.

There was a shareholder proposal to formally separate the CEO and Chairman roles and that wherever possible the Chairman should be an independent director. The company, and ISS, recommended to vote against this resolution as there are currently plans to replace the current CEO/Chairman with an independent Chairman once the CEO retires in 2023. Regardless of the company's intentions to make this change, we voted FOR this resolution, since the separation of CEO and Chairman is best practice corporate governance and the resolution set an expectation that the positions would always be separated, and that the Chairman would be independent.

The auditor ratification resolution passed with 5% of votes AGAINST and the shareholder proposal did not pass as 20% of shareholdings voted FOR.

Corporate engagements

This quarter we initiated a series of engagements focused on the risks of modern slavery and forced labour occurring in supply chains to understand how our investee companies may be identifying and mitigating these risks. As a signatory to the UN Global Compact, we are highlighting these Principles to the companies we are engaging with, especially those focusing on human rights and labour rights:

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
- Principle 2: make sure that they are not complicit in human rights abuses;
- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour; and
- Principle 5: the effective abolition of child labour.

Specifically, we are interested in how companies are working with their suppliers in relation to the use of outsourcing and third-party service providers, to ensure that there are adequate processes to check for contraventions of human rights principles in these companies. We are asking companies the following questions as part of the engagement:

1. How are you addressing modern slavery, or forced labour, risks through your procurement of goods and services?
2. Do you engage or collaborate with your suppliers beyond requiring compliance with a vendor code of conduct, or similar, document?
3. Do you have any training or capacity building programs for employees, suppliers, and subcontractors to raise awareness of forced labour risks and promote responsible business practices?
4. Have you developed accessible whistle-blower / grievance mechanisms to address human rights issues raised by workers or other affected stakeholders?
5. Are you taking any other steps to minimise these risks in your supply chains?

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