

Aquila Capital

ESG Integration Policy

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Introduction

Aquila Capital is an asset manager specialising in essential asset investments.¹ Since 2007, we have been providing compelling investment opportunities focused on driving the energy transition and sustainable infrastructure. Our goal is to deliver resilient returns while supporting clean energy initiatives and contributing to the decarbonisation of global infrastructure.

Aquila Capital provides tailored solutions designed to meet the needs of both institutional and retail clients. As a one-stop-shop for equity and private debt investments, we are dedicated to making sustainable real asset investments accessible and straightforward. We are licensed as an Alternative Investment Fund Manager (AIFM).

Our commitment towards sustainability goes beyond our efforts to support the energy transition and decarbonization of the world's economy. We believe that it is important that we manage ESG factors within our investment strategies, processes and throughout the management of our assets. One of the main guiding principles for our ESG integration effort is based on 'double materiality' which refers to the duality of ESG in terms of both financial implications as well as the impact of our actions on society and the environment. It is well understood and documented that ESG factors can have a material impact on the financial valuation of an asset, otherwise referred to as 'outside-in' perspective. However, we are also committed to consider the impact of our actions on the environment and society, which constitutes the so-called 'inside-out' perspective.

In addition, it is our conviction that ESG factors can be best managed when we get involved early in the value chain and control as much of the upstream activities in the development, construction, and operation of assets as possible. This allows us to consider ESG criteria at every step of the investment cycle and to enable all relevant functions and teams to follow our ESG risk mitigation hierarchy. We aim to be transparent about our objectives, achievements, challenges, and to disclose our progress to all relevant stakeholders on a regular basis. Our processes to manage ESG factors as described in this ESG Integration Policy need to be updated as our business evolves and our understanding of ESG factors advance, hence our efforts to reflect these processes are a process of continuous improvement.

¹ Includes assets related to expanding or renovating the world's low-carbon infrastructure. In the context of Aquila Capital, this includes clean energy solutions (wind, solar PV, hydropower, and BESS), diversified infrastructure, logistics, data centers, and natural capital

Guiding principles

As we consider ESG factors across our value chain, we are committed to:

- 1. Use an ‘outside-in’ perspective:** We consider ESG factors as part of our fiduciary duty and perform our investment due diligence according to materiality. ESG risks and opportunities can have a material impact on the financial valuation of our assets. By setting up the proper tools, due diligence procedures and using experts, we aim to ensure that all material ESG factors are identified, assessed, managed, and mitigated to protect our investors from potential financial downside.
- 2. Consider the ‘inside-out’ view:** We believe it is our responsibility to manage ESG factors along the value chain and to consider the impact of our operations on the environment and society. Managing ESG factors using an inside-out view is increasingly the focus of investors and regulators, including in the introduction of the ‘Do No Significant Harm’ assessment as part of the EU Sustainable Finance Disclosure Regulation.
- 3. Manage from end to end:** It is our conviction that the best way to manage ESG risks and take advantage of ESG opportunities is when these processes, tools and activities are embedded into the investment process, specifically into key decision gates and in the selection of key partners. And since we conduct investment activities at every step of the value chain including in development, construction, and operation, we can leverage our expertise throughout. How we do this is explained in the section called- *Our approach – ESG Integration along the value chain*.
- 4. Follow the ESG risk hierarchy:** Our goal as we consider ESG impacts throughout the value chain is to maximize the positive and minimize the negative environmental and social impacts of our activities. We apply a three-step concept - avoid, reduce and restore - to manage ESG factors throughout. In principle this means that we engage with local communities as early as possible to create projects that avoid environmental and social impacts where feasible, reduce the remaining impacts using mitigation measures, and if needed restore any residual effects to the maximum extent possible.

In addition to our guiding principles, Aquila Capital also commits to voluntary standards and initiatives. For example, we have been a member of UNEP FI since 2008. In 2017 we started to benchmark selected funds on their ESG performance with [GRESB](#), the leading ESG benchmark provider for real estate and infrastructure investments. We focus on utilizing this to enhance our ESG performance².

We have been a signatory to the United Nation’s Principles for Responsible Investment (PRI) since 2018 to support the creation of an economically efficient, sustainable global financial system that has long-term value creation at its core and rewards responsible investment for the benefit of the environment and society³. Through the implementation of this ESG Integration Policy, we contribute to the first principle “We will incorporate ESG issues into investment analysis and decision-making processes”⁴

² As of the latest reporting period. For details please refer to the latest ESG Report: [Find here the latest ESG Reporting of Aquila Capital \(aquila-capital.de\)](#)

³ Source: [About the PRI | PRI Web Page | PRI \(unpri.org\)](#)

⁴ Source: [About the PRI | PRI Web Page | PRI \(unpri.org\)](#)

Our goal for our memberships is to utilize them to advance our ESG performance, however we realize that some of these initiatives are more relevant than others to essential asset investment and development.

In summary given that the focus of the Aquila Capital is to manage essential assets on behalf of institutional clients, our ESG Integration approach needs to allow us to consider material ESG factors during key decision points along the value chain using our guiding principles and voluntary commitments. It also needs to support our efforts to implement the binding guidelines of the European Union for sustainable financial products (Sustainable Finance Disclosure Regulation, SFDR) which now requires greater transparency and standardized measurement for contribution to climate change mitigation including the need to ensure that the eligible assets and investment products are correctly assessed and verified (incl. external audit) and that this contribution is not coming at the expense of the environment and society.⁵

ESG Governance

The decisions about our sustainability work are made at the top of the organization. The Aquila Capital Investmentgesellschaft Management Board oversees our [sustainability commitment](#) and is crucial to the steering and resourcing implementation efforts including those required to support the implementation of this ESG Integration policy. The Aquila Capital Investmentgesellschaft Supervisory Board is the second main governing body of our AIFM and provides oversight to our ESG activities.

The ESG team is responsible for to the definition, implementation and management of Aquila's sustainability commitment. Meeting our principle of "Managing real assets in a responsible way" the ESG team is responsible for the appropriateness and effectiveness of the processes defined in this ESG Integration Policy. For this purpose, the ESG Team works closely with all key counterparties in the business units and functions to ensure that the activities defined herein are embedded into daily processes as much as possible and that regular checks are conducted to control effective implementation.

The ESG integration process requires close collaboration among various internal stakeholders across the organization and its business units—including Investment Management, Asset Management, Risk Management, Fund Management, and the ESG department—to ensure that ESG risk management and fund specific investment requirements are addressed in a robust and systematic manner throughout the entire investment lifecycle.

⁵ In regulatory terms, this is referred to as "Do No Significant Harm" (DNSH), "Minimum Safeguards" (MS), and "Principal Adverse Impact" (PAI) respectively.

Our approach - ESG Integration along the value chain

We follow a structured investment process which requires the evaluation and management of ESG criteria at every key point of the project stage. Starting with the sourcing or screening of assets, continuing in the due diligence process leading to an investment decision and during the operational management of the asset. All assets are subject to ongoing monitoring until they are divested.



Figure 1: ESG Integration along the value chain of Aquila Capital

1. Sourcing

With our focus on essential assets, we continuously seek new opportunities in the field of sustainability—particularly in climate change mitigation. As part of our formal New Product Process (NPP), ESG factors such as the avoidance of greenhouse gas (GHG) emissions are systematically considered. This includes assessing the feasibility of managing relevant ESG aspects using our existing capabilities, resources, and processes, as well as identifying and mitigating potential ESG risks associated with the proposed business opportunity. Additionally, where applicable, the eligibility and preliminary alignment with the EU Taxonomy is evaluated during the sourcing phase.

2. Investment Due Diligence

As part of the investment due diligence process, we assess both the suitability of target assets in relation to the investment strategy—particularly with regard to EU Taxonomy alignment—and the ESG risk profile of the asset.

Aquila Capital uses a proprietary ESG Risk Assessment process that was informed by industry frameworks such as SASB, IFC Performance Standards and GRESB which we enhanced by applying our own sector knowledge and experience. Our ESG risk assessment provides a view of the size and importance of ESG risks depending on asset type and stage of development. The resulting ESG risk profile is the basis for further steps, such as the definition of appropriate mitigation measures which may have an impact on the final investment decision.

During the assessment process, multiple stakeholders as well as subject matter experts, i.e., Risk Management, are involved. Since Aquila makes investment decisions at every step of the value chain, including in development, construction, and operation, we can leverage our expertise throughout. We believe that our proximity to the value chain gives us an advantage in our ability to identify, avoid, mitigate and restore ESG risks. In addition, we are able to leverage the expertise of our engineers, developers, investment managers, sustainability and risk managers as well as procurement teams to enhance our learning over time and advance our ability to manage ESG impacts.

Deep dive: ESG Risk Assessment - a proprietary and systematic approach

The management of sustainability risks (hereafter “ESG risks”) is an essential part of our fiduciary duty. ESG risks are defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment. At the same time, we take responsibility for the impacts of our actions on the environment and society, beyond their contribution to climate change mitigation. The ESG Risk Assessment is a foundational tool that helps us to establish a systematic process to identify, assess, mitigate, and manage ESG risks protecting investors from financial downside and minimize environmental or social adverse effects.

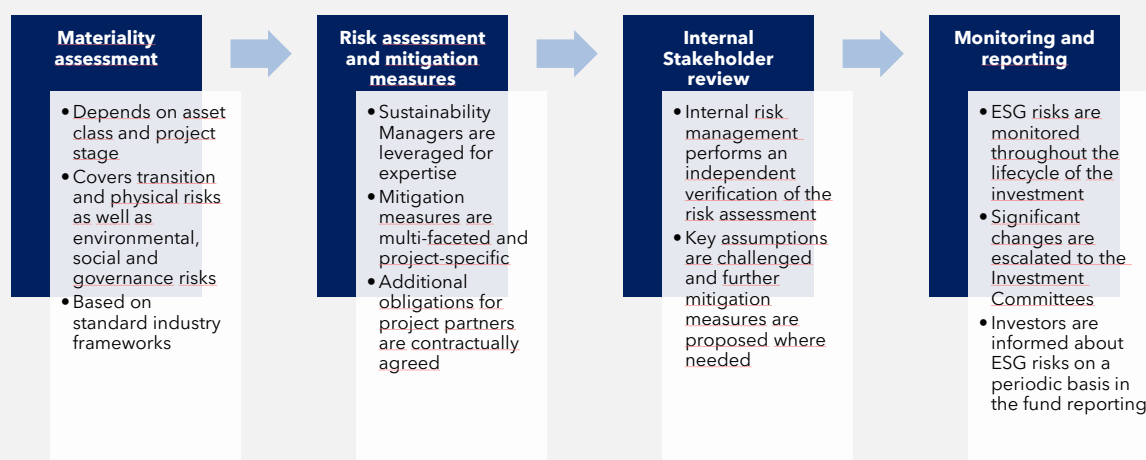


Figure 2: Aquila Capital ESG Risk Assessment

3. Investment Decision

Every project within the Aquila Capital portfolio must undergo a variety of decision gates. These occur when we decide to develop, construct and/or operate an asset and require the formal approval of an investment committee. For an investment decision to proceed in favour of a particular project, internal guidelines require that the ESG Risk Assessment is completed. The findings of the assessment are included in the investment proposal and discussed in an Investment Committee. The decision to proceed is depending on many factors, including the ESG risks and proposed mitigation measures.

4. Monitoring and Reporting

Transparency is important as it supports accountability, and it forms an integral part of Aquila Capital’s commitment to all stakeholders including investors. For the latter, quarterly fund reports typically include a dedicated ESG risk section, highlighting the ESG risk profile of a given product. In addition, the ongoing ESG risks, and mitigation activities are monitored throughout the lifetime of an asset, and significant changes to the risk profile are escalated to the Investment Committees. For funds which are subject to the SFDR and EU

Taxonomy, a streamlined process ensures that investors are receiving the necessary disclosures.

Process of Continuous Improvement

We acknowledge the landscape for essential asset investments and development is fast moving as is the development of new sustainability regulation and speed of industry commitments. We strive to incorporate stakeholder feedback into our approach and will constantly enhance our processes. Our approach to ESG as described in this ESG Integration Policy needs to be updated as our business evolves and our understanding of sustainability advances. Hence our efforts to reflect these activities are a process of continuous improvement.

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