HICL Infrastructure

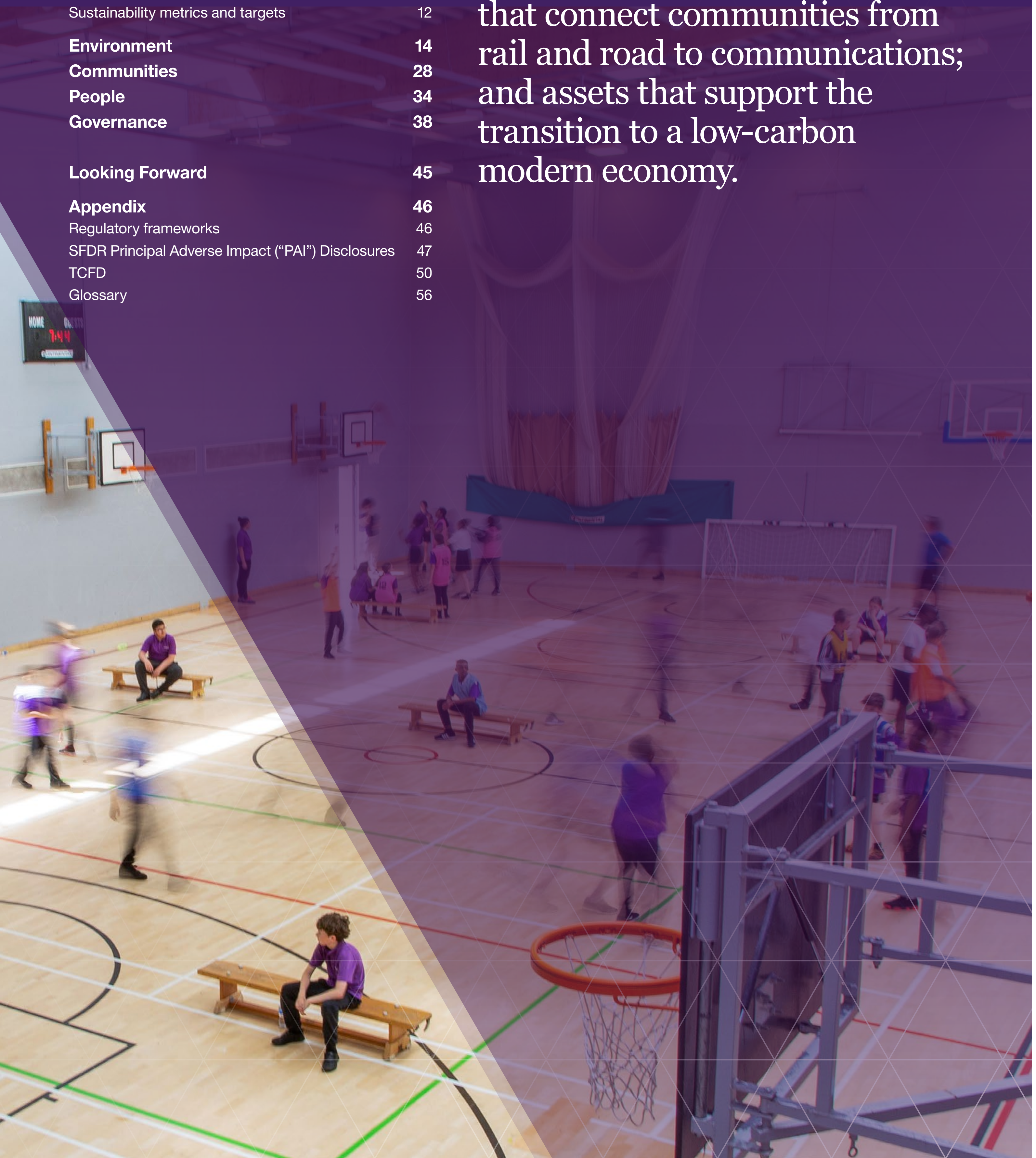
Enriching lives through infrastructure

HICL Sustainability Report 2024

Contents

Our vision is to enrich lives through infrastructure.

Investing in assets with strong social foundations such as healthcare and education; assets that connect communities from rail and road to communications; and assets that support the transition to a low-carbon modern economy.



Introduction

I am pleased to present HICL's Sustainability Report for the year to 31 March 2024. As a trusted steward of essential infrastructure that sits at the heart of communities, sustainability and a focus on creating positive societal impacts are firmly embedded in HICL's business model.

The Company's ability to deliver sustainable income and capital growth to its shareholders over the long term is intrinsically linked to delivering positive outcomes for the communities our assets serve and, in many cases, to which the assets will eventually be returned.

The Company's sustainability strategy is set out on pages 4-5 and is underpinned by four key priorities: Environment, Communities, People and Governance. These are the areas where we believe HICL's investments can generate the greatest sustainability outcomes. HICL's sustainability policy has also been updated during the year and articulates how the Company discharges its responsibilities in relation to each of these four themes.

The Board and Investment Manager regularly seek feedback from various stakeholders on the Company's approach to sustainability. This year we engaged a reputable industry adviser to carry out a bespoke ESG investor perception survey. The results provided valuable perspectives and identified a number of areas for improvement, informing our approach and the disclosure contained within this report. Information about the survey methodology and results is set out on page 11.

The Company has now published its second 'live' year of portfolio emissions data, covering 100% of the portfolio and providing investors with tangible data that will inform HICL's overarching ambition to decarbonise its portfolio by 2050. In support of this, InfraRed has developed a detailed action plan which sets out the percentage of HICL's portfolio expected to be aligning, aligned to or at net zero in each of the next three financial years, along with the key actions that will need to be taken to deliver this near-term progress. This is set out on pages 15-19 of this report.

HICL's assets facilitate the delivery of essential services and therefore have an inherent social purpose. This is demonstrated by 100% of the portfolio contributing to the UN Sustainable Development Goals ("SDGs"), as set out on pages 6-7. The Board and Investment Manager recognise the opportunity to go beyond the inherent benefits delivered by these assets and HICL therefore encourages its portfolio companies to progress initiatives which address the needs of their communities, clients, end users and other key stakeholders. These efforts are also supported by InfraRed's Portfolio Impact strategy, which has identified key community engagement initiatives that can be scaled across HICL's portfolio to maximise positive social impacts, as set out on page 29.

As well as serving over 35 million people globally, HICL's assets also directly employ over 2,300 people and thousands more through their supply chains. In recognition of the importance of reinforcing HICL's sustainability ethos throughout its wider operation, InfraRed developed diversity, equity and inclusion guidance for portfolio companies that directly employ staff and monitored performance against this via the annual ESG survey. For the first time, HICL's key service providers were also asked to complete a code of conduct form as well as their usual self-assessment, allowing the Company to formally monitor compliance with key policies and standards.

"The Company's progress against its sustainability objectives reflects its commitment to best practice."

The significant macroeconomic and financial market volatility experienced over the past year has highlighted the importance of HICL's robust governance framework, which has resulted in strong alignment between the Board, the Investment Manager, and the Company's shareholders. The acceleration of HICL's strategic asset disposal strategy to reduce debt and the announced £50m share buyback programme demonstrate this, with both decisions made to bolster HICL's financial position. The Investment Manager's alignment with the Board to deliver this transaction activity underscores its commitment to the Company's robust governance framework and the undertaking of responsible investment practices to support HICL's long-term success.

The Company's progress against its sustainability objectives reflects its commitment to best practice, the responsible stewardship of public assets, and the delivery of positive impacts beyond those inherently created through its portfolio. Our ambition is to continue to progress our sustainability strategy in order to generate value for all of our stakeholders both today and over the long term.

Mike Bane
Chair of the Board of Directors

Our business

HICL is a FTSE 250, London-listed UK investment company that seeks to offer investors sustainable income and capital growth from investments in core infrastructure that are critical to the functioning of society. The Company follows an active strategy to manage and selectively grow a portfolio of investments in essential real assets with a protected market position, that deliver investors resilient, high-quality, long-term cash flows.

The Investment Manager to HICL is InfraRed Capital Partners ("InfraRed"). InfraRed is a specialist infrastructure asset manager with over 25 years of investment experience and is currently actively managing over 240 infrastructure assets across 15 geographies with US$13bn+ of equity under management. InfraRed has day-to-day responsibility for the operations of the Company and actively manages HICL's relationships with its key stakeholders.

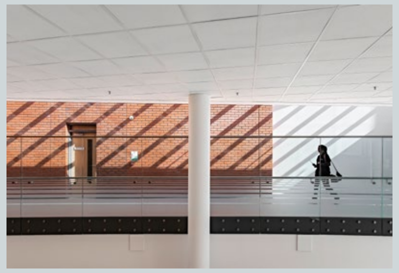
Our purpose is for HICL to be the pre-eminent investor in essential core infrastructure in our chosen markets

Our vision is to enrich lives through infrastructure

Strong social foundations

45%

of portfolio



Connecting communities

37%

of portfolio

Sustainable modern economies

18%

of portfolio

Our stakeholders

As a responsible owner of essential public assets, HICL's ability to deliver its investment proposition over the long term is closely linked to the delivery of positive stakeholder outcomes for the broader community.

Our communities and end users

We invest in infrastructure projects that provide essential services to local communities. In some instances, we deliver those services directly, such as the provision of clean energy or water, and in other instances these services are performed by our public sector clients such as healthcare services.

Our clients

We work together with corporate partners and public sector clients, including the UK's National Health Service (NHS), local councils, National Highways, and various international government departments to deliver many of our essential infrastructure services.

Our people

HICL indirectly employs over 2,300 people through its portfolio companies and thousands more through each asset's supply chain. InfraRed, HICL's Investment Manager, has a talented, diverse team of over 160 people worldwide which comprises over 25 nationalities speaking 20 different languages.

Our delivery and other partners

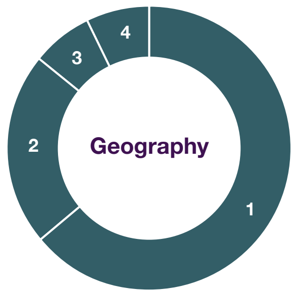
To enable high-quality infrastructure assets, we enlist the services of several businesses which include management service providers, construction companies, facilities management companies, financiers, co-shareholders and advisors.

Our shareholders

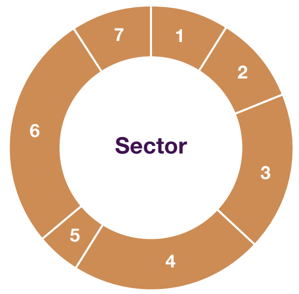
We invest in infrastructure assets using the capital provided by our investors. Our shareholders range from individuals to substantial international institutions, such as pension funds, who generate stable and long-term returns responsibly and ethically for their clients.

Our portfolio

HICL is the trusted steward of over 100 high-quality infrastructure investments, spanning eight countries and a range of different sectors covering the depth and breadth of core infrastructure.



1	UK	64%
2	EU	22%
3	North America	7%
4	Australia & New Zealand	7%



1	Accommodation	9%
2	Education	10%
3	Electricity & Water	18%
4	Health	22%
5	Fire, Law & Order	5%
6	Transport	27%
7	Communications	9%

Our sustainability strategy

Environment
Read more on page 14

Preserve the natural environment and mitigate the impacts of climate change by investing in the energy transition, delivering climate resilient infrastructure and working to reduce carbon emissions from HICL's portfolio.

FY24 Sustainability Highlights

- Creation of a detailed net zero transition plan for HICL's portfolio, including specific asset transition plans for the next three years
- InfraRed contributed to the IPA Guidance Document on Operational Decarbonisation at PFIs

FY24 objective

FY24 key stats

89,559 tCO_2
Total Attributable GHG Emissions across HICL's portfolio

88%
Portfolio companies with Water Reduction Initiatives


Decarbonisation planning at M17/M18 Road

Communities
Read more on page 28

Positively impact the communities in which HICL's assets are located by actively addressing the needs of clients, end users and other key stakeholders.

FY24 Sustainability Highlights

- InfraRed Portfolio Impact initiatives were rolled out across several HICL assets to address client challenges raised in InfraRed's latest Client Insights Survey
- Seven HICL projects obtained a 'gold standard' award in InfraRed's annual Creating Better Futures awards

FY24 objective

FY24 key stats

94%
Portfolio companies gave voluntary charity contributions to environmental or social initiatives over the year

200+
Community initiatives implemented across the portfolio during the period


Tablet donations: West Middlesex Hospital

People
Read more on page 34

Promote fair and safe conditions as well as diverse and inclusive workplaces within HICL's portfolio companies and across the supply chain.

FY24 Sustainability Highlights

- Code of conduct forms were introduced for completion by HICL's main service providers, allowing the Company to formally monitor compliance with key policies and standards
- Developed, implemented and rolled out DEI guidance for portfolio companies that directly employ staff and monitored performance against this via the annual ESG survey

FY24 objective

FY24 key stats

23%
Gender diversity at portfolio company boards

0.28
RIDDORs per project


Healthcare 2023 Staff Excellence Awards

Governance
Read more on page 38

Ensure that HICL maintains high standards of ethics and integrity through the rigorous implementation of policies and the provision of transparent and balanced disclosure.

FY24 Sustainability Highlights

- Disclosed HICL's first set of year-on-year comparisons of SFDR PAIs and GHG emissions
- ESG-specific investor perception survey carried out with c.25% of HICL's shareholder register, read more on page 11
- Case studies demonstrating InfraRed's investment framework in practice

FY24 objective

FY24 key stats

97%
Portfolio companies conduct modern slavery training

100%
Portfolio companies have Anti-bribery and Corruption policies


Hornsea II OFTO

Our impact

This page demonstrates the reach of HICL's portfolio. By facilitating access to essential services in a socially responsible manner, our projects contribute to many of the UN Sustainable Development Goals ("SDGs") and deliver an inherent social good. However, both the Board and the Investment Manager acknowledge that making a genuine social contribution involves going above and beyond the reliable provision of infrastructure.

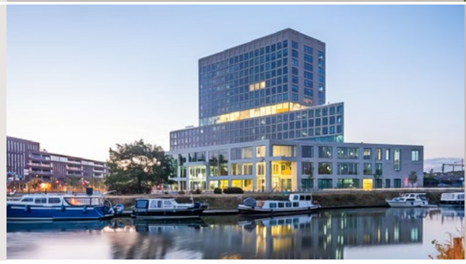
The nature of HICL's investment proposition means the Company contributes most to the following two SDGs:

9 Industry, innovation and infrastructure
11 Sustainable cities and communities

Aligning HICL's portfolio and SDGs

% by valuation as at March 2024

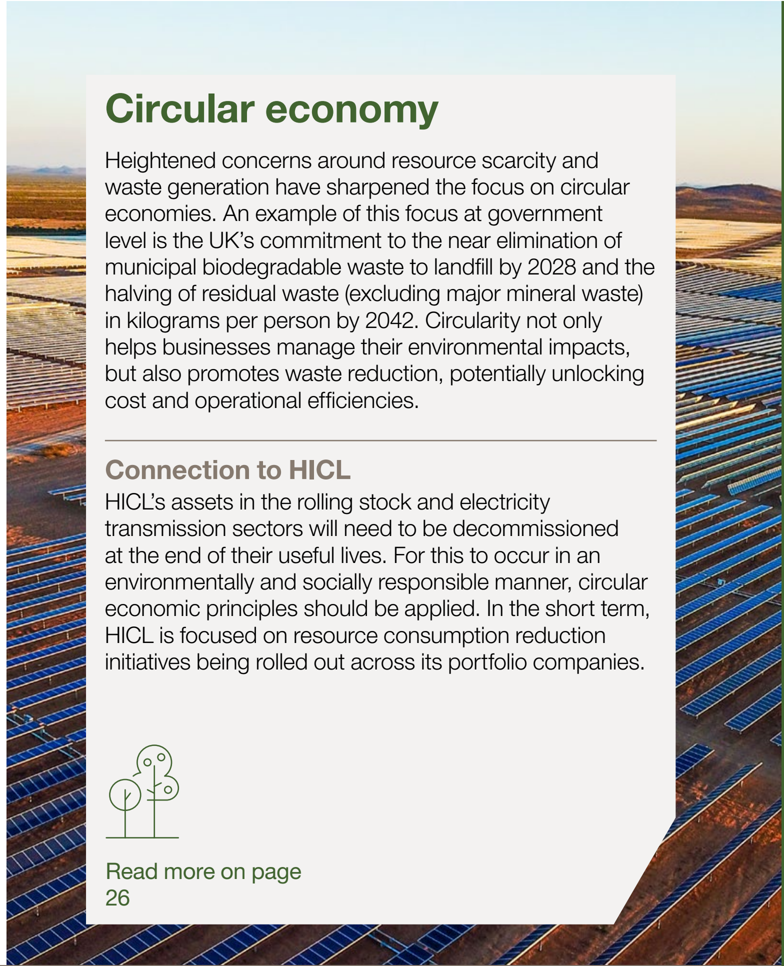
3: Good health and well-being	22%
4: Quality education	10%
6: Clean water and sanitation	8%
7: Affordable and clean energy	10%
9: Industry, innovation and infrastructure	18%
11: Sustainable cities and communities	28%
16: Peace, justice and strong institutions	4%

SDG		How we support		
3 Good health and well-being	Ensure healthy lives and promote well-being for all at all ages	HICL invests in 32 assets that directly promote good health and wellbeing including hospitals, primary care centres and fire stations.	People with access to HICL's healthcare facilities 8.7m	
4 Quality education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	HICL invests in 42 educational assets including schools, colleges, libraries, training facilities and universities that facilitate the provison of essential learning outcomes.	120k Student places across school, college and university facilities	
6 Clean water and sanitation	Ensure availability and sustainable management of water and sanitation for all	Affinity Water is one of the UK's largest water-only companies, owning and managing water projects and networks in an area approximately 4,500km² across three supply regions in the southeast of England.		People served with clean water by Affinity Water 3.9m
7 Affordable and clean energy	Ensure access to affordable, reliable, sustainable and modern energy for all	HICL invests in six electricity transmission assets with a total capacity of 4,500 MW which support the provision of clean energy.		Homes connected to renewable electricity by HICL's OFTOs 3.1m
9 Industry, innovation and infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	HICL invests in six assets supporting industry innovation and infrastructure across fibre, telecommunications towers and accommodation. These assets provide essential services required to support the functioning of modern eco.	>5m Homes connected to high-speed internet by Altitude Infra	Accommodation places 35,000
11 Sustainable cities and communities	Make cities and human settlements inclusive, safe, resilient and sustainable	HICL invests in 17 assets supporting sustainable cities and communities including roads, railways and rolling stock. These assets contribute to affordable and sustainable transport systems.	Unique users of HICL's roads and railways >5m	
16 Peace, justice and strong institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	HICL invests in eight assets promoting peace, justice and strong institutions including prisons, police stations, judicial courts, and custodial centres.		2.3m People served by HICL's courts, fire stations and police stations

Global trends

Driving our approach

As a long-term investor in essential core infrastructure assets, it is important that our approach to sustainability directly reflects, and responds to, the key environmental and social issues that affect our stakeholders and wider society.



Circular economy

Heightened concerns around resource scarcity and waste generation have sharpened the focus on circular economies. An example of this focus at government level is the UK's commitment to the near elimination of municipal biodegradable waste to landfill by 2028 and the halving of residual waste (excluding major mineral waste) in kilograms per person by 2042. Circularity not only helps businesses manage their environmental impacts, but also promotes waste reduction, potentially unlocking cost and operational efficiencies.

Connection to HICL

HICL's assets in the rolling stock and electricity transmission sectors will need to be decommissioned at the end of their useful lives. For this to occur in an environmentally and socially responsible manner, circular economic principles should be applied. In the short term, HICL is focused on resource consumption reduction initiatives being rolled out across its portfolio companies.

Read more on page
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Energy transition

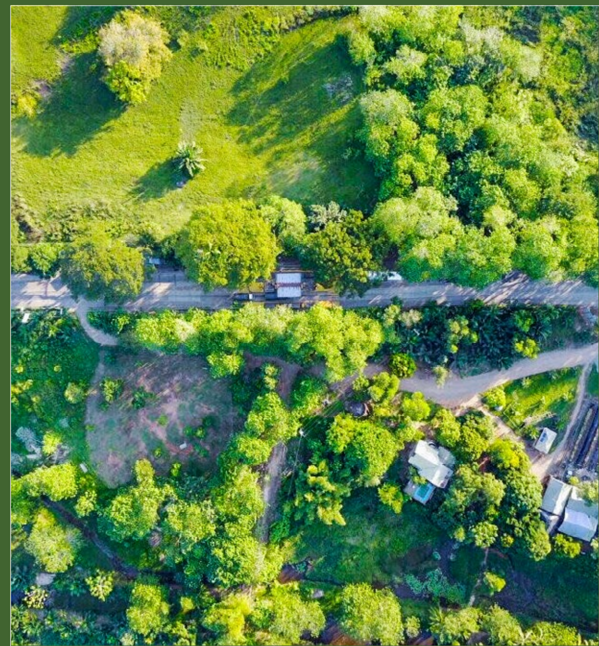
Policy commitments and technological advancements have resulted in significant clean energy adoption in the last two years. The outcomes of COP28 are set to catalyse energy transition investments, given commitments made to double energy efficiency and triple renewable energy capacity globally by 2030.

Despite the commitments made at COP28, cost-of-living crises and the increasing politicisation of climate change have resulted in the rolling back of some national climate commitments, as observed in the UK. 2024 could be pivotal: some of the world's largest carbon-emitting territories will hold elections, including the US, the UK and the European Union. These elections have potentially significant implications for the pace of the energy transition. However, HICL remains optimistic that the merits of delivering the transition, including cost advantages, improved energy security and accessibility, and enhanced climate resilience, will continue to attract strong levels of investment.

Connection to HICL

HICL plays a key role in enabling the energy transition through its investments in electricity transmission networks and OFTOs. The Company's contribution to climate solutions is discussed on page 15.

Read more on page
15-16



Biodiversity

Biodiversity remains a global focus area for 2024 as the social and economic impacts of environmental degradation have become better understood by investors and consumers. Widespread efforts to improve biodiversity are also driven by evidence linking biodiversity to human wellbeing and economic prosperity. To support these efforts, the Taskforce on Nature-related Financial Disclosures (TNFD) developed a standardised toolkit to help businesses evaluate their exposure to nature-related risks and opportunities, and integrate the associated learnings into their strategic planning.

Given the dynamic nature of biodiversity regulation and shifting public expectations, biodiversity conservation not only promotes long-term environmental resilience but can also mitigate potential regulatory and reputational risks.

Connection to HICL

The Company has a responsibility towards the local communities in which its assets are located to mitigate negative externalities and encourage measures that promote local biodiversity. Improving biodiversity can also improve the climate resilience of HICL's portfolio, since trees and plants and mitigate some of the physical impacts of climate change such as flooding.

Read more on page
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Sustainable supply chains

As companies get better at sustainably managing their direct operations, priorities will shift to improving labour conditions and reducing GHG emissions in their supply chain activities to meet the demands of investors and consumers. Companies will also need to improve the transparency of their supply chain activities and demonstrate appropriate consideration of environmental impacts and social responsibilities.

Connection to HICL

In support of its net zero commitments, HICL monitors and reports the Scope 3 emissions of its portfolio companies. These disclosures can be found on page 23. InfraRed also collects important data through its annual ESG survey on compliance with modern slavery legislation, not only for its portfolio companies but also their wider supply chains. Gaps can then be identified and addressed by InfraRed's dedicated asset managers.

Read more on page
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Advances in technology

The widespread adoption of artificial intelligence ("AI") in sustainability is set to accelerate over the coming year, largely driven by the substantial data analysis required for monitoring performance against sustainability objectives. As companies are facing pressure to set ambitious targets, AI offers solutions to not only support emissions monitoring and reporting, but also to streamline operations such that emissions are minimised and to monitor supplier practices. The adoption of AI by companies also provides opportunities for investments in supporting infrastructure, most notably data centres.

Connection to HICL

The digitisation of societies and economies worldwide is expected to result in a nine-fold increase in data creation between 2017-2027,[1] increasing demand for data storage. See page 12 of the HICL 2024 Annual Report for information about the market for digital assets.

Prudent cyber risk management practices are at the forefront of InfraRed's risk management framework and fully embedded within its operations; additional information about the Investment Manager's approach to cyber security is set out on page 43.

Read more on page
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1 How to take advantage of the world's demand for data, Investors' Chronicle (22 February 2024).

Our approach

HICL

As a prominent long-term investor in core infrastructure, HICL has a role in society that extends beyond its shareholders.

The Company is a trusted steward of essential assets and has a responsibility towards the communities that the assets serve and, in many cases, to which the assets will be returned at the end of the defined contractual term. The Board and Investment Manager recognise that operating in a sustainable manner is a core component of the Company's business model and is fundamental for the successful delivery of its investment proposition.

Our infrastructure supports the lives and livelihoods of the communities in which we operate. Around the world, over 35 million people have access to HICL's infrastructure; in the UK alone, HICL's assets affect the lives of one in four citizens. As a result, the Company has an opportunity to make a positive social contribution by enhancing the experience of its clients, end users and wider stakeholders.

"The Board recognises that positive outcomes for HICL shareholders are intrinsically linked to positive outcomes for the communities served by HICL's assets."

Mike Bane
Chair of the Board of Directors

You can download the HICL Annual Report 2024 here.

InfraRed

InfraRed aims to create better futures by developing and managing long-term, sustainable infrastructure.

The Investment Manager believes that long-term success for all stakeholders (including investors) can only be achieved by taking responsibility for the wider impacts of its investment activities. Sustainability has always been central to how InfraRed invests and manages HICL's portfolio, as well as the way in which it conducts its own business operations.

"In facing ESG-related risks head-on, we remain committed to pioneering sustainable solutions that embody our vision for Creating Better Futures."

Jack Paris
CEO, InfraRed

You can download the InfraRed Sustainability Report 2024 here.

ESG investor perception survey

Consistently meeting sustainability reporting expectations and offering accountability to investors requires continuous improvement. Both the Board and Investment Manager seek feedback on the Company's approach from a variety of stakeholders on an ad-hoc basis, and this process was formalised for the first time during the year with the launch of a bespoke ESG investor perception survey.

Survey scope and methodology

In August 2023, the Company commissioned a reputable industry adviser to undertake an investor perception exercise focused solely on sustainability. Detailed discussions were held with investors representing c.25% of HICL's issued share capital in aggregate. This deliberately captured a mix of larger and smaller shareholders to improve the representativeness of the sample. Participants included fund managers as well as ESG specialists from the respective institutions.

Participants were asked ten open questions about HICL's ESG strategy, specifically concerning the Company's relative positioning and its sustainability disclosures.

Key strengths identified in the survey

- Most investors ranked HICL in the sector's top quartile in terms of ESG performance
- HICL received an average rating of 7.8 out of 10 for its ESG disclosures and 7.6 out of 10 for its ESG metrics and targets
- HICL's proactive approach to reporting against relevant industry frameworks and standards is viewed positively by investors

Acting on investor feedback

The main topics investors revealed they would like additional disclosure about, along with actions the Company has taken to address this feedback, are captured in the table below.

Transitioning to net zero	HICL has published its net zero transition plan to financial year 2027. This plan details the percentage of the portfolio the Company expects to be aligning to, aligned to or at net zero in each of the next three financial years, along with the key steps it intends to take to deliver this progress.	See page 18
Supply chain management	HICL's key service providers were for the first time asked to complete a code of conduct form, allowing the Company to formally monitor compliance with key policies and standards.	See page 35
ESG consideration in the investment process	The Company has provided case study examples providing greater insight into the screening exercises performed at the pre-investment stage.	See page 40
Alignment with the UN SDGs	HICL has for the first time disclosed the proportion of its portfolio by value contributing to various SDGs.	See pages 6-7

Sustainability metrics and targets

InfraRed's annual ESG survey, which monitors the implementation of environmental, social and governance considerations across HICL's portfolio, continues to allow the Company to report on its performance in these areas. Notably, HICL reports against all fourteen mandatory Principal Adverse Impact 'PAI' indicators and seven 'voluntary indicators' as set out under the EU's SFDR regime.

For details on changes in the metrics from the previous year, please see the relevant section pages for Environment, Communities, People and Governance.

Further information on SFDR is set out on pages 47 to 49 of this report, and the PAI template is also included in HICL's 2024 Annual Report.

M **PAI indicators – Mandatory**

V **PAI indicators – Voluntary**

Environment

Read more

Metric	Current Year	Previous Year	% Portfolio reporting	PAI?	Targets
Portfolio companies with Carbon Reduction Initiatives	**76%[8]**	83%	100%	M	**Net zero targets:[1]** 50% Portfolio coverage; 90% Engagement threshold by 2030
Portfolio companies with Water Reduction Initiatives	**88%**	92%	100%	V	**For portfolio companies where we have operational control:[2]** 100% of portfolio companies with material water consumption to have reduction initiatives in place by 2025
Portfolio companies with Waste Reduction Initiatives	**87%**	92%	100%		
Portfolio companies with Positive Biodiversity Initiatives	**76%**	83%	100%		
Portfolio companies that included and discussed climate risks and opportunities at board level	**83%**	91%	100%		
Total Attributable GHG Emissions (Scopes 1, 2 & 3) for the portfolio	**89,559 tCO_2e**	146,115 tCO_2e	100%[4]	M	90% of emissions to be subject to direct or collective engagement and stewardship actions by 2030

Communities

Read more

Metric	Current Year	Previous Year	% Portfolio reporting	PAI?	Targets
Portfolio companies that gave charitable contributions to environmental or social initiatives	**94%**	92%	100%		100% share of portfolio companies to make a voluntary charitable contribution by 2025
Portfolio clients that responded to the Client Insights Survey	**N/A[3]**	61 client responses	N/A[3]		80 responses to the Client Insights Survey by 2025

1 A more detailed explanation of HICL's net zero targets and methodology can be found on pages 15-18.
2 Note this target relates to portfolio companies where we have operational control in relation to setting and implementing water and waste reduction initiatives. Where we do not have operational control (such as PPP/PFI projects), we will still engage on these initiatives.
3 The Client Insights Survey was not undertaken in FY24. Please see page 30 for information about the actions taken over the year in response to the most recent survey.
4 100% of HICL's portfolio by valuation has emissions data reflected in the Total GHG Emissions calculations. For more information on HICL's methodology for estimating and reporting GHG emissions, please see pages 22-23.

People

Read more

Metric	Current Year	Previous Year	% Portfolio reporting	PAI?	Targets[9]
Number of RIDDORs per project[10]	**0.28**	0.38	120 projects	V	1/3 of senior level roles to be held by women by 2028
Portfolio companies that completed an independent health and safety audit	**85%**	96%	100%		24% of senior[11] team members are women
Gender diversity[5] at portfolio company boards	**23%**	27%	99%	M	
Gender pay gap[6] at portfolio companies	**20%**	20%	32%	M	20% of staff are of ethnic minorities (13% senior level)

Governance

Read more

Metric	Current Year	Previous Year	% Portfolio reporting	PAI?	Targets
Strong Corporate Governance: Portfolio companies with appropriate policies concerning:	**80%**	94%	100%	V PAIs included: whistleblowing, health and safety, anti-bribery and corruption	100% target for all aspects of Governance across the portfolio by 2025
Conflicts of interest	**100%**	96%	100%		
Whistleblowing	**99%**	98%	100%		
Cyber security	**100%**	96%	100%		
Health and safety	**97%**	100%	100%		
Anti-bribery and corruption	**100%**	96%	100%		
Diversity and inclusion	**100%**	96%	100%		
Tax	**93%**	96%	100%		
ESG	**93%**	96%	100%		
Business continuity	**94%**	96%	100%		
Modern slavery	**94%**	95%	100%		
Modern slavery:[7] Portfolio companies that train their staff to ensure they have an understanding of what the Act is and undertake audit procedures to ensure policies are effective:	**71%**	90%	100%	V	
Training	**97%**	90%	100%		
Audit	**71%**	93%	100%		
Portfolio companies with active stewardship[12]	**93%**	94%	99%		

5 For HICL, the gender diversity metric relates to the board of directors at our portfolio companies.
6 This metric refers to Affinity Water and Altitude Infra only, as these are the two assets in HICL's portfolio with the required number of employees to meet the criteria of this PAI. Portfolio coverage for this metric is shown as a proportion of the valuation of portfolio companies which have direct employees.
7 HICL considers the modern slavery metric to line up with the PAI of Processes to approach human rights.
8 All metrics, unless otherwise stated, are based on the percentage of portfolio value.
9 The below targets refer directly to HICL's manager, InfraRed.
10 For the definition of RIDDOR, please see the Glossary on page 56.
11 Senior is defined as Managing Director and Partner levels.
12 Percentage of portfolio companies where InfraRed has attended all board meetings, visited one of the project company's assets and actively monitored the project/company's performance.

Environment

It is important that we ensure that the positive social contribution of our assets does not come at the expense of the natural environment.

The HICL Board, Investment Manager, portfolio company management teams and project sub-contractors are focused on reducing negative environmental impacts and, wherever possible, implementing measures that catalyse positive changes, both directly at the asset level and for the wider community in which that asset is located. Despite HICL not having operational control over any of its subsidiaries, the Company still has a responsibility to use its influence, and that of the Investment Manager, to promote environmental improvements.

The Company takes a holistic approach to assessing and improving its impact on the environment, which can be divided across three core themes:

Climate change

Delivering climate-resilient infrastructure, contributing to the energy transition and taking steps to achieve net zero

Biodiversity

Minimising environmental impacts, pollution and loss of flora and fauna

Resources

Reducing waste and the consumption of natural resources

Environment highlights

89,559 tCO_2

Total Attributable GHG Emissions across HICL's portfolio
FY23: 146,115 tCO_2

88%

Portfolio companies with Water Reduction Initiatives
FY23: 92%

76%

Portfolio companies with Positive Biodiversity Initiatives
FY23: 83%

76%

Portfolio companies with Carbon Reduction Initiatives
FY23: 83%

- HICL's attributable emissions have decreased by 39% compared to last year. This reduction is largely due to the use of an updated databased used by InfraRed to estimate Scope 3 emissions
- To support HICL's net zero commitment, InfraRed is engaging with portfolio companies to enhance emissions data and develop decarbonisation plans. It is therefore expected that a greater number of carbon reduction measures will be formalised
- InfraRed continues to encourage portfolio companies to implement environmental initiatives in each reporting period. We note however that there will be fluctuations in this metric based on the timeframes of implementation

Climate change

Delivering climate-resilient infrastructure, contributing to the energy transition and taking steps to achieve net zero.

Over recent years, it has become even more evident that climate change has the potential to negatively impact infrastructure assets around the world. For infrastructure stakeholders, frequent extreme weather events and rising sea levels are increasingly visible consequences of manmade greenhouse gas emissions. The Board and Investment Manager strongly believe that making a proactive and positive contribution to climate action is in the best interests of HICL's shareholders, clients and wider stakeholders.

Our approach to climate change

On behalf of HICL, InfraRed actively identifies and mitigates the risks that climate change poses to the Company whilst also looking to reduce the actual and potential adverse impacts of business decisions on societies and the environment. The Manager uses the concept of 'double materiality', under which HICL must report both on how its business is impacted by sustainability issues ("outside-in") and how its activities impact society and the environment ("inside-out").

The concept of double materiality, which is embedded in the EU and UK sustainable finance disclosure regimes, is addressed via three key levers:

- **Investing in climate solutions**: assets such as electrified railway lines, electric rolling stock and electricity transmission assets which inherently support the transition to a lower carbon society (see below)
- **Building resilience to climate change impacts**: this includes considering and responding to physical risks to HICL's infrastructure, transition risks under a lower carbon future and liability risks associated with climate inaction
- **Decarbonising HICL's portfolio:** through the continued monitoring and reduction of greenhouse gas emissions across HICL's portfolio companies, in close partnership with public sector clients, service delivery providers and co-shareholders

Net zero

In July 2021, InfraRed reinforced its commitment to reducing greenhouse gas emissions by joining the Net Zero Asset Manager initiative, which committed the Investment Manager to achieving net zero emissions for HICL's entire portfolio by 2050. The Investment Manager's approach to net zero is also aligned with Science Based Targets initiative ("SBTi") methodology. Last year, HICL disclosed its own interim targets that are set out below.

As of 31 March 2024, 26% of the portfolio is currently invested in climate solutions[1]. While the Company anticipates that this will grow over time and commits to maintaining transparency on the percentage of the portfolio invested in climate solutions, the Net Zero Investment Framework ("NZIF") for Infrastructure recognises the difficulty in setting a Climate Solutions target for funds of HICL's nature. The Company is therefore not setting a formal target at this time.

1. Portfolio coverage

Target

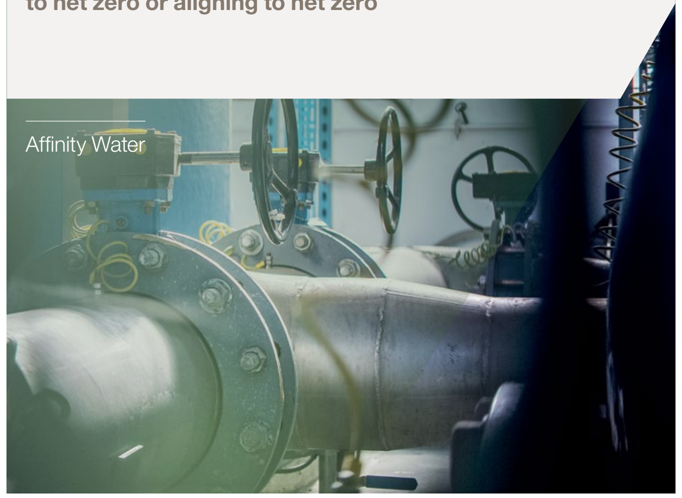
50%

of HICL's portfolio to be net zero, aligned to net zero or aligning to net zero by 2030

Baseline as of 31 March 2023

16%

of HICL's portfolio at net zero, aligned to net zero or aligning to net zero



Affinity Water

2. Engagement threshold

Target

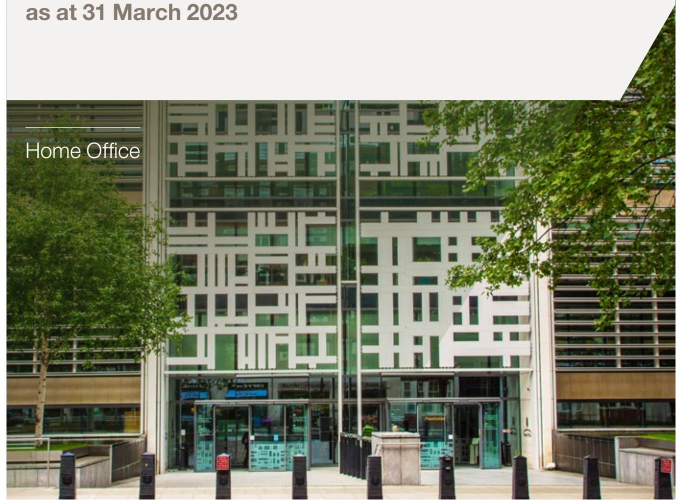
90%

of portfolio company emissions to be subject to direct or collective engagement and stewardship actions by 2030

Baseline as of 31 March 2023

0%

Not formally tracked as at 31 March 2023



Home Office

1 Climate solutions classifications are informed by the EU Taxonomy. We note that evolvements in the Taxonomy may lead to certain projects being reclassified, and our baseline may need to be revised to reflect such changes.

Climate change continued

1. Portfolio coverage

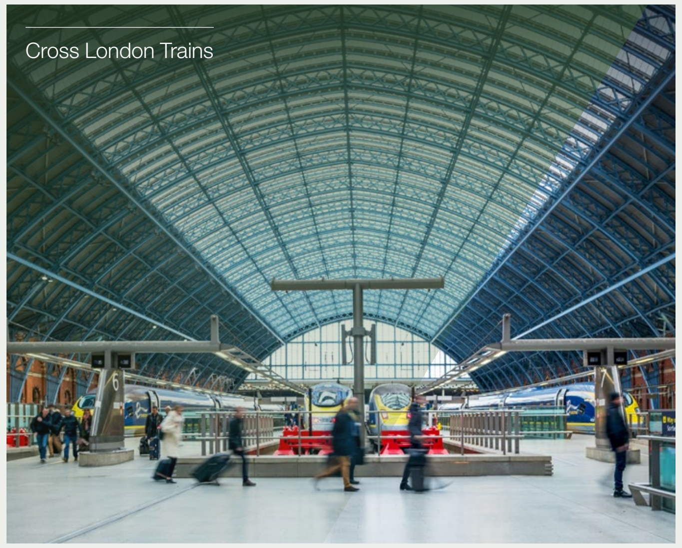
What is a portfolio coverage target?

A portfolio coverage target, as defined by the NZIF for Infrastructure, is the percentage of assets under management that will be net zero, aligned or aligning by a given year.

HICL has increased its percentage of assets under management that is aligning, aligned or net zero from a baseline of 16% as at 31 March 2023 to 25% as at 31 March 2024. The following table outlines the breakdown of assets which are contributing to the Company's current portfolio coverage.

Transition stage	Criteria	Contributing assets	Portfolio valuation
Aligning	– Interim science-based net zero targets in place	**None**	0%
Aligned	– Decarbonisation plan in place underpinning science-based net zero targets	**Affinity Water** **High Speed 1 ('HS1')** **Cross London Trains ('XLT')**	16%
Net zero	– Emissions aligned with / outperforming sector pathway required and expected to maintain this performance	**Texas Nevada Transmission ('TNT')** **OFTO projects: Burbo Bank, Galloper, Hornsea II, Race Bank and Walney Extension**	9%
Total % of portfolio valuation			25%

HICL will update its assessment of its portfolio coverage position where appropriate as guidance on NZIF's application to infrastructure evolves, particularly around decarbonisation requirements for assets categorised as climate solutions.


Cross London Trains


Texas Nevada Transmission

HICL Sustainability Report 2024

HICL's portfolio coverage approach

HICL's investments cover several infrastructure sectors, necessitating a sector-based approach to net zero implementation. The majority of HICL's PPP assets have no employees and limited control over day-to-day project operations. This reinforces the importance of effective engagement activities to encourage decarbonisation progress.

PPP/PFI public services infrastructure

Typical sectors

- Education
- Healthcare
- Transport
- Emergency services

58% of portfolio by value

Electricity transmission infrastructure

Typical sectors

- Transmission lines
- OFTO projects: Burbo Bank, Galloper, Hornsea II, Race Bank and Walney Extension

9% of portfolio by value

Other infrastructure investments

Typical sectors

- Rail
- Fibre
- Water

33% of portfolio by value

Operational control

PPP/PFI public services infrastructure	Electricity transmission infrastructure	Other infrastructure investments
Factors to consider Services (e.g. lighting and heating) must be performed for clients (e.g. NHS) in accordance with contract terms that pre-date, and therefore offer limited flexibility for, changing energy systems.	**Factors to consider** Operational energy emissions are negligible. All Scope 3 activities (e.g. operations and maintenance) are subcontracted, and therefore primary focus should be on supplier engagement and selective procurement.	**Factors to consider** There is a greater ability to use governance rights in these companies to support net zero implementation and collaborate directly with decision-makers.
Our response Adoption of the Infrastructure and Project's Authority (IPA) PFI Operational Decarbonisation document – a stepped approach to the contract change process to support net zero interventions, with recommended activities and checklists at each stage.	**Our response** InfraRed tracks the net zero alignment of HICL's suppliers who are encouraged, based on materiality, to set their own science-based targets. The commitments made by prospective suppliers are also now being considered in procurement processes.	**Our response** Adoption of net zero integration framework developed by InfraRed's Net Zero Working Group. It is a phased approach to meeting NZIF aligning criteria over the short to medium term, based on the maturity and sector of the business.

Fund level transition plans taking into account separate strategies required for underlying portfolio companies

PPP/PFI public services infrastructure	Electricity transmission infrastructure	Other infrastructure investments
Next steps ▶ Pilot programme to work directly with projects in different sectors to implement IPA guidance. ▶ Target portfolio companies in line with fund transition plans and learnings from pilot programme.	**Next steps** ▶ Improve accuracy of Scope 3 emissions. ▶ Roll out supplier engagement programme to encourage suppliers of repairs and spares, operations and maintenance to decarbonise.	**Next steps** ▶ Support and monitor the implementation of net zero alignment criteria in line with requirements set. ▶ Bespoke workshops with management teams on net zero.

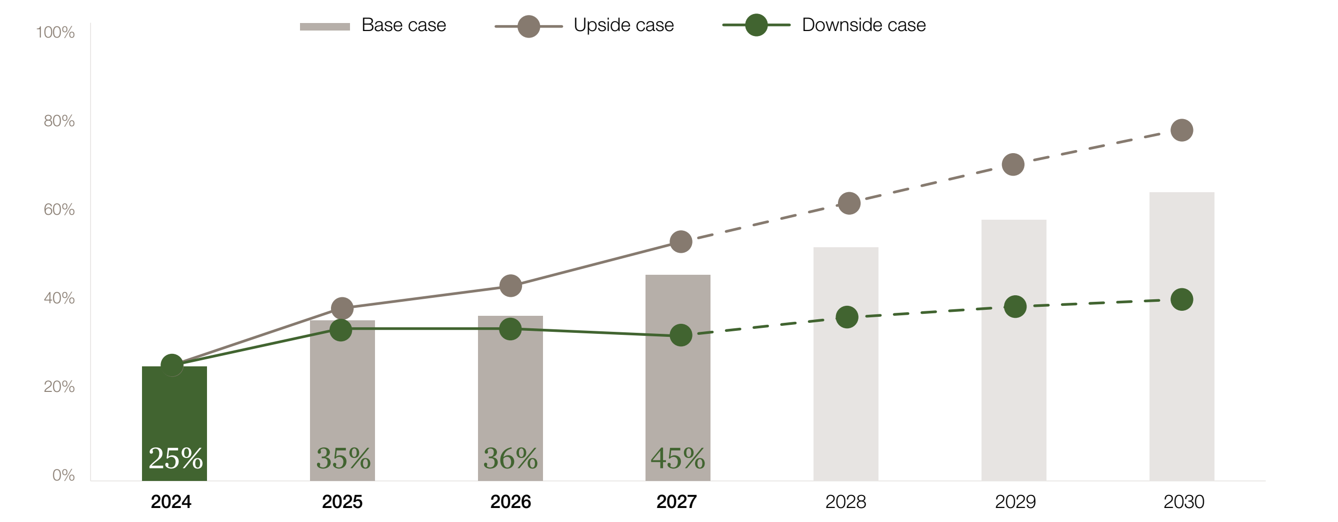
Climate change continued

Net zero transition plan to FY27

InfraRed has produced a roadmap outlining the percentage of HICL's portfolio by valuation it expects to be aligning, aligned to or at net zero in each of the next three financial years, specifying a base case, an upside case and a downside case for expected outcomes. InfraRed's Sustainability Team aimed to select larger assets with more intensive emissions profiles for this near-term transition exercise, with the aim of driving progress against the Company's 50% portfolio coverage target. Other factors, such as transition progress to date and budget availability also fed into the asset selection decisions. InfraRed has also outlined the key steps it expects will need to be taken to deliver the progress planned for each year. The projections in this transition plan make the relatively conservative assumption that HICL does not purchase any new assets before the end of FY27 that are already aligning, aligned to or at net zero.

Under the base case depicted in the chart below, HICL is projected to meet its 50% portfolio coverage target ahead of 2030, albeit all progress is largely dependent on the support of relevant portfolio company stakeholders, particularly the clients of HICL's PPP projects. The Company has therefore decided against adjusting its portfolio coverage target upwards at this stage and will instead observe at least one full year of progress against this new transition plan before any revisions are considered. The Company remains committed to reviewing its net zero targets every five years at a minimum and if actual performance observed over the next financial year is more closely aligned with the upside case in the chart below, the portfolio coverage target will be revised upwards to ensure it remains appropriately ambitious.

EXPECTED PERCENTAGE OF PORTFOLIO ALIGNING, ALIGNED TO OR AT NET ZERO



Financial year end	Base case % of portfolio aligning, aligned to or at net zero	Key asset type(s) transitioned in the period	Key near-term steps to be taken
2025	35%	Transport and Accommodation	– Complete emissions inventory reviews and confirm decarbonisation levers – Obtain project board approvals for decarbonisation plans that are currently being worked on
2026	36%	Health	– Identify contractual adjustments that may be necessary to implement plans – Work with facilities management providers and clients to form decarbonisation plans based on IPA guidance
2027	45%	Communications	– Improve data collection to identify 'carbon hotspots' – Support management teams with adopting net zero aligned decarbonisation strategies

2. Engagement threshold

What is an engagement threshold target?

Effective stakeholder engagement is a key element of our approach to delivering on our net zero commitment

We recognise the importance of engagement with our public sector clients, management teams and other key stakeholders. After setting our first engagement threshold target in the previous financial year, the Company has now formally recorded its first year of engagement data.

The primary engagement channels include:

- **Direct engagement** through board meetings and one-to-one meetings with clients, engaging on net zero initiatives and decarbonisation feasibility/strategy studies
- **Indirect engagement** through industry working groups, workshops, and presentations with our portfolio company management teams. We also issue guidance documents on, for example, interpreting climate risk assessments and sourcing data for emissions calculations

TARGET

90%

of emissions to be subject to direct or collective engagement and stewardship actions by 2030

AS AT 31 MARCH 2024

76%

of portfolio emissions subject to engagement

Direct engagement

The metric used to track progress against our engagement threshold is a combination of evidence indicating all three of the following:

- InfraRed asset manager engagement with portfolio company
- Portfolio company management team consideration of net zero strategy
- Portfolio company engagement with subcontractors

In line with NZIF requirements, portfolio companies with positive results across all three metrics have been mapped against their 2023 emissions (page 23), showing the proportion of HICL's portfolio emissions that have been subject to engagement.

As set out above, 76% of HICL's portfolio emissions are currently subject to engagement. This relates to engagements with 87 portfolio companies.

Indirect engagement

Industry engagement

With 64% of its assets based in the UK, HICL is particularly well positioned to benefit from the Investment Manager's collaborative relationship with the Infrastructure and Projects Authority (IPA), which is the UK government's centre of expertise for infrastructure and inherently one of the Company's key stakeholders. In 2023, InfraRed contributed to the development of the IPA Guidance Document on Operational Decarbonisation at PFIs. Recognising the distinct challenges associated with implementing net zero within the bounds of strict contractual requirements, this guidance seeks to provide tools and recommendations to overcome these. The publication proposes five principles of good practice when producing a project decarbonisation plan that will help inform plans currently in development across many HICL portfolio companies.

The Investment Manager also collaborates with industry groups to develop tailored guidance that addresses challenges faced by businesses on their net zero transition journeys.

The publication proposes five principles of good practice for developing a project decarbonisation plan.

1 **Data first**
Begin by gathering information about existing energy consumption and efficiency.

2 **Know your contract**
In some cases, contract changes may be required to enable decarbonisation measures to be implemented.

3 **Engage with stakeholders**
The development and delivery of decarbonisation plans will require collaboration between the project, the IPA, facilities management providers and building users.

4 **Prioritise**
It is for all interested parties and stakeholders to actively consider and bring forward opportunities for decarbonisation.

5 **Make a plan**
A programme of shortlisted decarbonisation interventions should be selected as part of a planned and deliverable pathway to decarbonisation.

This guidance is publicly available here

Climate change continued

Climate resilience

Embedded in HICL's investment philosophy is the process to identify risks and opportunities relating to climate change. As part of the investment process, InfraRed engages an external advisor to undertake a climate change risk assessment. The Investment Manager also requires that all new investments undergo a climate risk assessment prior to acquisition and work with the business to incorporate findings in technical and insurance due diligence as well as in financial valuation models. A portfolio-wide assessment was completed in FY24 and this will be repeated annually.

84%

of portfolio companies discussed climate-related risks and opportunities at the board level
(FY23 91%)

98%

of portfolio companies have updated their risk register to reflect the findings of the impact assessments
(FY23 96%)

76%

Portfolio companies with Carbon Reduction Initiatives
(FY23 83%)

HICL's process for embedding climate change risks and opportunities across our investments

1 Identify climate change risks and opportunities as part of its investment process

InfraRed engages an external advisor to undertake a climate change risk assessment across all of our new investments to develop:

- A physical risk assessment for all assets of a given project to quantify current and future physical risks from climate change on the portfolio.
- A sector-based transition impact review based on potential policy and legal, technology, market, and reputation-based risks.

2 Engaging the assets to embed the risks

InfraRed's Sustainability Team engages with the assets to integrate the risks and opportunities identified into their risk registers and risk management processes.

3 Continual monitoring

As part of InfraRed's annual ESG survey, portfolio company management teams are asked to describe their process for discussing climate-related risks and opportunities at Board level. They are also asked to update risk registers to reflect the findings of the impact assessment. InfraRed's Sustainability Team identifies areas for development as part of the survey and works with the portfolio companies to improve policies and processes as necessary.

Climate change impact assessment

Given HICL's commitment to climate resilience, InfraRed engaged Willis Towers Watson to conduct a detailed climate change impact assessment covering HICL's portfolio. The schematic below sets out the process undertaken to identify and analyse climate-related risks under a range of scenarios. The process and methodology undertaken to analyse potential physical and transition risks consists of four stages.

1 Portfolio physical risk assessment

Location-based quantitative and qualitative physical risk assessment of HICL's portfolio based on three scenarios:

Scenario	Assumed global temperature increase from pre-industrial times by the end of the century	Representative Concentration Pathways (RCP[1])
Hothouse world	4°C	8.5
Middle of the road	2-3°C	4.5
Net zero by 2050 scenario	1.5°C	2.6

2 Impact assessment

Assessment of acute and chronic hazards with the potential to reduce the availability and capacity of specific assets using proprietary in-house developed vulnerability models.

3 Modelling

Modelling of potential financial losses associated with current and future physical risks arising from climate change. These were modelled over short-term (now until 2030) and long-term (beyond 2040) time horizons.

4 Transitional risk assessment

As part of the assessment, transitional risks were also identified.

Results summary

Under the 'current' climate scenario, 17% of HICL's portfolio by value has a hazard exposure index above 3 (medium). This falls to 7% under the 4°C scenario beyond 2040, demonstrating the resilience of the portfolio even in the event of extreme climate change. The chart below shows the hazard exposure indices for each sector across acute and chronic hazards in both the 'current' climate and the RCP 8.5 (4°C) beyond 2040 scenarios. Additional information can be found in HICL's TCFD disclosures that start on page 50.

Hazard Exposure

	Current Climate/RCP 2.6		RCP 8.5 (2040-50)	
Sector	Acute	Chronic	Acute	Chronic
Communications	4	3	4	3
Electricity and Water	3	2	3	2
Social infrastructure	3	1	3	2
Transport	4	1	4	2

Key: Very high, High, Moderate, Low, Very low

1 RCPs specify concentrations of greenhouse gases that will result in total radiative forcing increasing by a target amount by 2100, relative to pre-industrial levels.

Climate change continued

Emissions

Estimating and reporting our greenhouse gas emissions

The collection and reporting of GHG emissions is essential for providing transparency to HICL's stakeholders and guiding the Company's net zero engagement strategy. For an asset to be aligned to or aligning with net zero, it is necessary to measure emissions effectively and set reduction targets. Consequently, InfraRed's emissions questionnaire that is shared with HICL's portfolio companies is updated annually, with input from the IPA Net Zero Working Group and specialist consultants with GHG expertise.

For the calendar year to 31 December 2023, 100% of portfolio companies provided responses, up from a response rate of 97% in the prior year.

Some portfolio companies carry out annual emissions inventories in-house – a practice the Investment Manager encourages in engagement activities as it builds greater awareness within these entities. Portfolio companies that do not have the resources, however, complete InfraRed's data request. All raw data is handed over to a third-party specialist consultant and, following a period during which checks and clarifications are made, emissions are estimated. Where there are data gaps, for example, energy data is controlled by a third party and is inaccessible, proxies are used. These are drawn from several sources, including, for example, the NHS database or companies of a similar nature within the portfolio. The Company recognises that while critically important for decarbonisation measures, data availability remains a challenge faced by the industry.

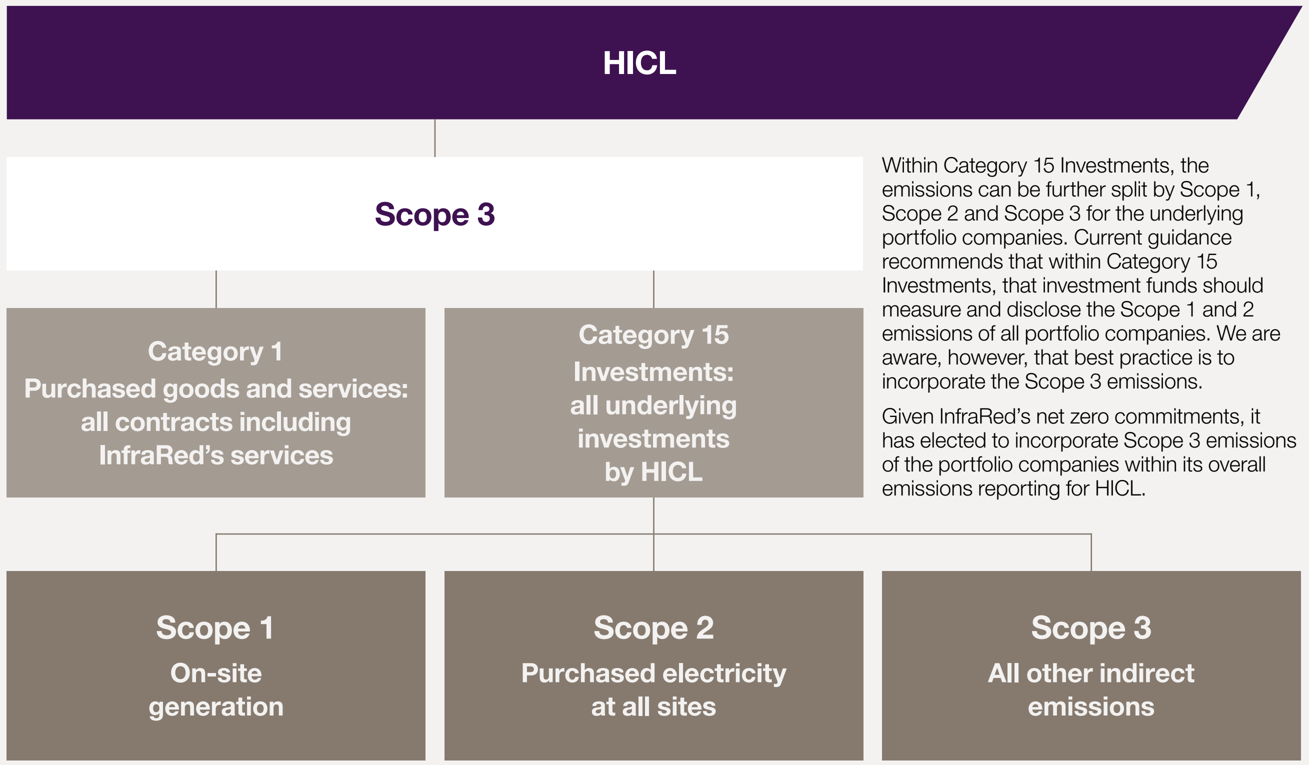
HICL has measured its Scope 1, Scope 2 and Scope 3 emissions in accordance with the GHG Protocol and the Partnership for Carbon Accounting Financials (PCAF), both of which are recognised standards for accounting on corporate emissions methodology.

Organisational and operational boundaries

In accordance with the guidance developed by PCAF, HICL has adopted the operational control approach as the Directors believe this reflects the level of emissions that can be actively controlled and reduced. There are no subsidiaries where HICL has operational control. As a result, HICL does not have any emissions under Scopes 1 and 2 and all emissions will be reported as part of Scope 3. As HICL is an investment fund, its emissions fall under two categories within Scope 3 as defined by PCAF:

Category 1: Purchased goods and services, which relates to the office use and travel of the employees of the Investment Manager, the Board of Directors, and the Company Secretary

Category 15: Investments, which relates to the emissions of HICL's assets



Within Category 15 Investments, the emissions can be further split by Scope 1, Scope 2 and Scope 3 for the underlying portfolio companies. Current guidance recommends that within Category 15 Investments, that investment funds should measure and disclose the Scope 1 and 2 emissions of all portfolio companies. We are aware, however, that best practice is to incorporate the Scope 3 emissions.

Given InfraRed's net zero commitments, it has elected to incorporate Scope 3 emissions of the portfolio companies within its overall emissions reporting for HICL.

Emissions data

In accordance with the PCAF methodology, financed emissions should be attributable to the investment fund based on the proportional share of equity held in the portfolio companies. HICL's attributable emissions have been calculated in accordance with the PCAF attribution factor for project finance as set out below:

$$\text{Attribution Factor} = \frac{\text{Outstanding Investment}^{1}}{\text{Total Equity Value} + \text{Total Debt}}$$

The below sets out HICL's attributable emissions for the calendar year ending 31 December 2023:

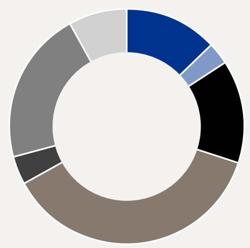
Emissions (Attributable basis)	Year ended 31 December 2023	Year ended 31 December 2022
Scope 1 Direct GHG emissions – occur from sources that are owned or controlled by the organisation	Nil	Nil
Scope 2 Indirect GHG emissions – occur from the generation of purchased electricity, heating, cooling and steam	Nil	Nil
Total Scope 1 and 2 (market based) emissions (tCO_2e)	**Nil**	**Nil**
Scope 3		
Category 1, emissions from indirect purchased goods and services (tCO_2e)	174	75
Category 15, emissions from all operational investments (tCO_2e)	82,537	120,096
Category 15, emissions from all investments under construction (tCO_2e)	7,022	26,019
Total Scope 1, 2 and 3 emissions (tCO_2e)	**89,733**	**146,190**
Weighted average carbon intensity (tCO_2e/£m)	280	526
Total Scope 1, 2 and 3 emissions (tCO_2e) – including sold assets[2]	94,453	146,190

HICL's financed emissions decreased over the period, largely due to Scope 3 emissions. In 2023, HICL's Manager adopted EXIOBASE as its data source to estimate Scope 3 emissions. Recommended by the GHG Protocol, it uses more recent data, with greater granularity across sectors and countries than the methodology previously adopted. The use of this newer database has contributed to a material reduction in the Scope 3 emissions reported this year.

Whilst the revised methodology provides a more accurate reflection of impact, we anticipate further movements in emissions as data quality and methodologies improve.

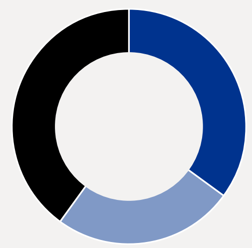
Total emissions across HICL's portfolio

TOTAL EMISSIONS ACROSS THE HICL PORTFOLIO, SPLIT BY SECTOR



	%
Accommodation	13
Communications	3
Education	14
Health	37
Fire, Law & Order	4
Transport	21
Electricity & Water	8

TOTAL EMISSIONS ACROSS THE HICL PORTFOLIO, SPLIT BY SCOPE



	%
Scope 1 GHG Emissions	35
Scope 2 GHG Emissions	25
Scope 3 GHG Emissions	40

1 Outstanding investment is equivalent to the current value of HICL's equity investment in the portfolio company.
2 Considers emissions from assets sold during FY24.

Emissions continued

Case study

Decarbonisation planning at M17/M18 Road

M17/M18 Road

In line with HICL's commitment to delivering climate-resilient infrastructure, a Net Zero Decarbonisation Plan for the operation and maintenance of the M17-M18 road is being developed by HICL's portfolio company.

The plan will follow a phased approach, enabling the results of each stage to inform the work done in subsequent phases. The first phase will focus on establishing the asset's baseline carbon footprint to identify emissions hotspots and allow subsequent net zero transition progress to be measured with clarity. Phase 2 is where the decarbonisation plan will be developed and will involve discussions with key project stakeholders around the carbon footprint results from Phase 1, potential funding opportunities and various carbon reduction initiatives that could be pursued. Carbon reduction initiative proposals will incorporate near-term (5-10 year) and long-term (2050 or sooner) science-based targets. Absolute reduction targets will be set for Scope 1 and 2 emissions, whilst a more nuanced approach based on both absolute and intensity reductions may be required for material Scope 3 emissions. Amendments to the portfolio company's operational and maintenance plans that may be required in order to align with the decarbonisation proposals will also be identified in Phase 2. After confirming the full Net Zero Decarbonisation Plan, the third and final phase will be centred around the implementation and monitoring of this using dedicated KPIs. Overall, this plan for M17/M18 road will support knowledge and best practice sharing across HICL's wider portfolio as the Company works to deliver against its net zero targets.

Biodiversity

Minimise environmental impacts, pollution and loss of flora and fauna

The implementation of biodiversity initiatives remains a priority when considering long-term environmental preservation. While addressing biodiversity loss is complex, HICL addresses the management of biodiversity risks within its portfolio companies. The tracking of HICL's asset performance in terms of biodiversity is carried out through the Investment Manager's ESG survey, which offers important data on potential initiatives and supports the disclosure of PAI indicators related to biodiversity.

Tailored strategies and subsequent initiatives designed and implemented by InfraRed and HICL's portfolio companies aim to maximise ecological benefits within particular local environments. Over the full year to 31 March 2024, portfolio companies continued to minimise negative impacts in accordance with planning requirements. Taking a step forward from just negating negative biodiversity impacts, this year the Manager has been shifting its focus to also implement biodiversity-positive initiatives, as illustrated by the case study here.

InfraRed is tracking the developments of ISSB, a global framework that is expected to consolidate sustainability-related disclosures in the coming years.

The Manager is working to understand timeframes and how it will affect HICL's reporting.

InfraRed is also tracking the TNFD framework releases and is currently working to develop a strategy to measure and reduce our impacts on biodiversity more effectively.

ISSB

TNFD

Case study

Enhancing biodiversity initiatives

Pinderfields & Pontefract Hospitals

Green spaces on the Pinderfields Hospital grounds include wildlife areas, gardens and natural paths. During the year, the project company donated funds and resources to the Mid Yorkshire Teaching NHS Trust to support the delivery of biodiversity enhancement initiatives across this site. These initiatives are expected to include the trials of new weed removal methods, the installation of structures to support local wildlife, and the creation of a native hedgerow within which 1,500 of the trees are supplied by the facilities management provider. In November 2023, volunteers from the project company and the facilities management provider partnered with the NHS Trust to plant 1,000 of these trees at the hospital site in celebration of National Tree Week. In addition to providing homes for wildlife, these will help to reduce air pollution, benefitting the 250,000 outpatients each year, and their extended family members, local communities and Trust colleagues.

1 More information on the Annual ESG survey can be found on page 11

Resources

For HICL's PPP projects, resource consumption is driven by the needs of the end users.

In most cases, our public sector clients are responsible for carrying out operational services and the portfolio company's responsibilities are generally limited to maintaining the equipment which provides the building's heating, cooling and lighting. InfraRed monitors resource consumption and resource saving initiatives across each of HICL's investments through its annual ESG survey. Some of HICL's non-PPP projects, including HS1 and Affinity Water, have greater scope to manage their resource consumption and set out their strategies, targets and initiatives on their respective websites.

The metrics below guide the Investment Manager's focus when it comes to reducing resource consumption. In the full year to 31 March 2024, InfraRed has continued to focus on the quantities of water consumed and waste disposed of by HICL's portfolio companies. Whilst consumption habits vary significantly across the portfolio, the ESG survey responses allows InfraRed to identify sector-specific trends then provide support with tailored, scalable initiatives.

88%

of assets have initiatives to reduce water consumption in place
(FY23 92%)

87%

of assets have initiatives to reduce waste disposed in place
(FY23 92%)

Case study

St Pancras International Waste Management for Circular Economy

High Speed 1

High Speed 1 (HS1) is the 109km rail link that connects London St Pancras International Station in London and the Channel Tunnel. As part of a programme of circular economy initiatives, HS1 installed a Mobile Segregation Unit (MSU) at the station to improve waste separation and recycling. The installation of the MSU represents a significant step towards achieving HS1's goal to increase recycling rates by 30%.

The MSU uses a combination of manual segregation and special technology to process station and retailer waste on-site. This enables clean, segregated waste bales to be produced, ready for recovery or recycling. The self-contained unit will ensure higher recycling rates, provide real-time waste data, and establish accountability by highlighting the waste composition of each retailer. By crushing and baling recycling streams onsite, the frequency of waste collections will decrease, reducing the emissions impact from transport. To support the initiative, HS1 has also engaged with retailers to understand their waste management challenges and delivered education sessions.

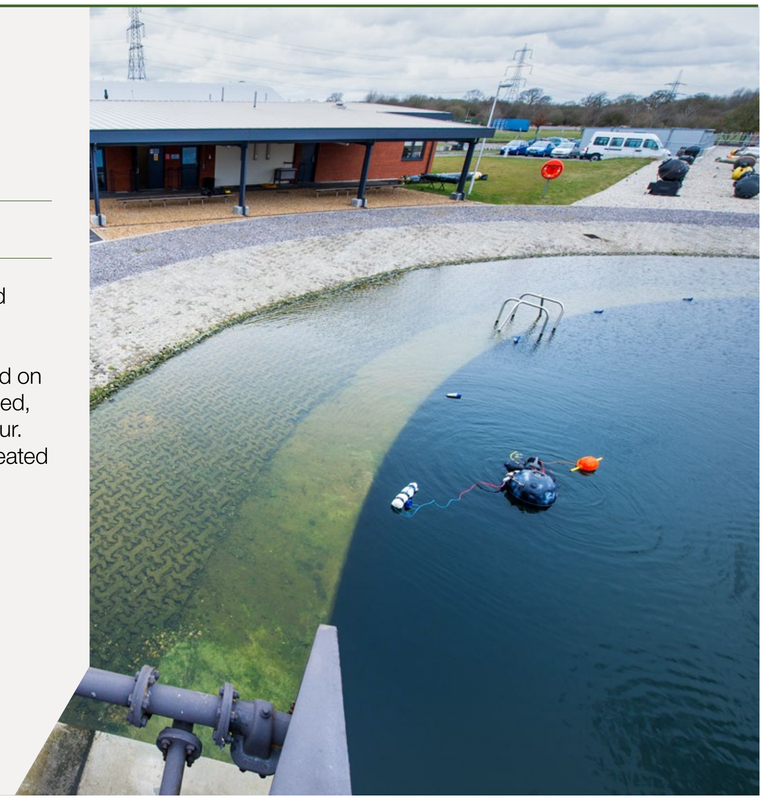
Case study

The Combat Water Supply System at the 2023 Sapper Games

Royal School of Military Engineering

The RSME's Combat Water Supply System (CWSS) provided a sustainable water supply for over 3,500 people at the 2023 Sapper Games, the British Army's largest summer sports gathering. The system decontaminates river water, as it would on humanitarian missions when drinking water availability is limited, and can produce up to 6,000 litres of purified water every hour. At the Sapper Games, the CWSS supplied 15,000 litres of treated water for drinking, washing, and operating laundry systems. All water supplied was assessed by environmental health technicians to exceed the relevant safety standards.

This solution helped to ensure the wellbeing of the Royal Engineers during the games whilst minimising environmental impacts.



Case study

The Bidwell Water Savers project

Affinity Water

Affinity Water is the largest water-only supply company in the UK, providing 950 million litres of water each day to more than 3.9 million people in the Southeast of England. Affinity Water is leading an innovative project called "Bidwell Water Savers", in partnership with Independent Water Networks (IWNL) and Grapeviners H20iQ. The project's objective is to identify ways to ensure that a community's water consumption remains constant as more housing is developed.

The initiative aimed to reduce the residents of Bidwell's water demand with a targeted behavioural change campaign across social media, a dedicated website, and at community events. Businesses and households in Bidwell were also provided with water efficiency devices. With a combined annual saving of over 80 million litres, the water consumption of the community has not increased, despite additional housing developments.

The project has positively impacted 382 households and 45 non-household customers including 29 schools, the local council, and local businesses. The project also generated savings of approximately £240,000 on customer water bills.

Communities

As a trusted steward of essential infrastructure assets, HICL sits at the heart of communities and plays a key role in modern society.

By investing in assets that provide essential services to communities, HICL delivers an inherent social good. The Company's sustainability strategy seeks to build on this by driving improvements in the ESG performance of the assets in the portfolio, with a particular focus on creating a positive social impact.

The Company's diverse range of projects have a tangible impact on the daily lives of their end users, by:

Providing essential services, such as water or access to healthcare

Facilitating inter-regional connectivity through transport and communication assets

Having important social purposes, through the provision of care and social housing

Enabling education and generational change

In this section

Communities highlights

94%

Portfolio companies gave voluntary charity contributions to environmental or social initiatives over the year

FY23: 92%

200+

Community initiatives implemented across the portfolio during the period

FY23: 100

- HICL reports continued strong performance in the number of portfolio companies delivering community engagement activities in FY24
- Seven of HICL's portfolio companies achieved a gold standard recognition in InfraRed's Creating Better Future Awards

InfraRed's Portfolio Impact strategy

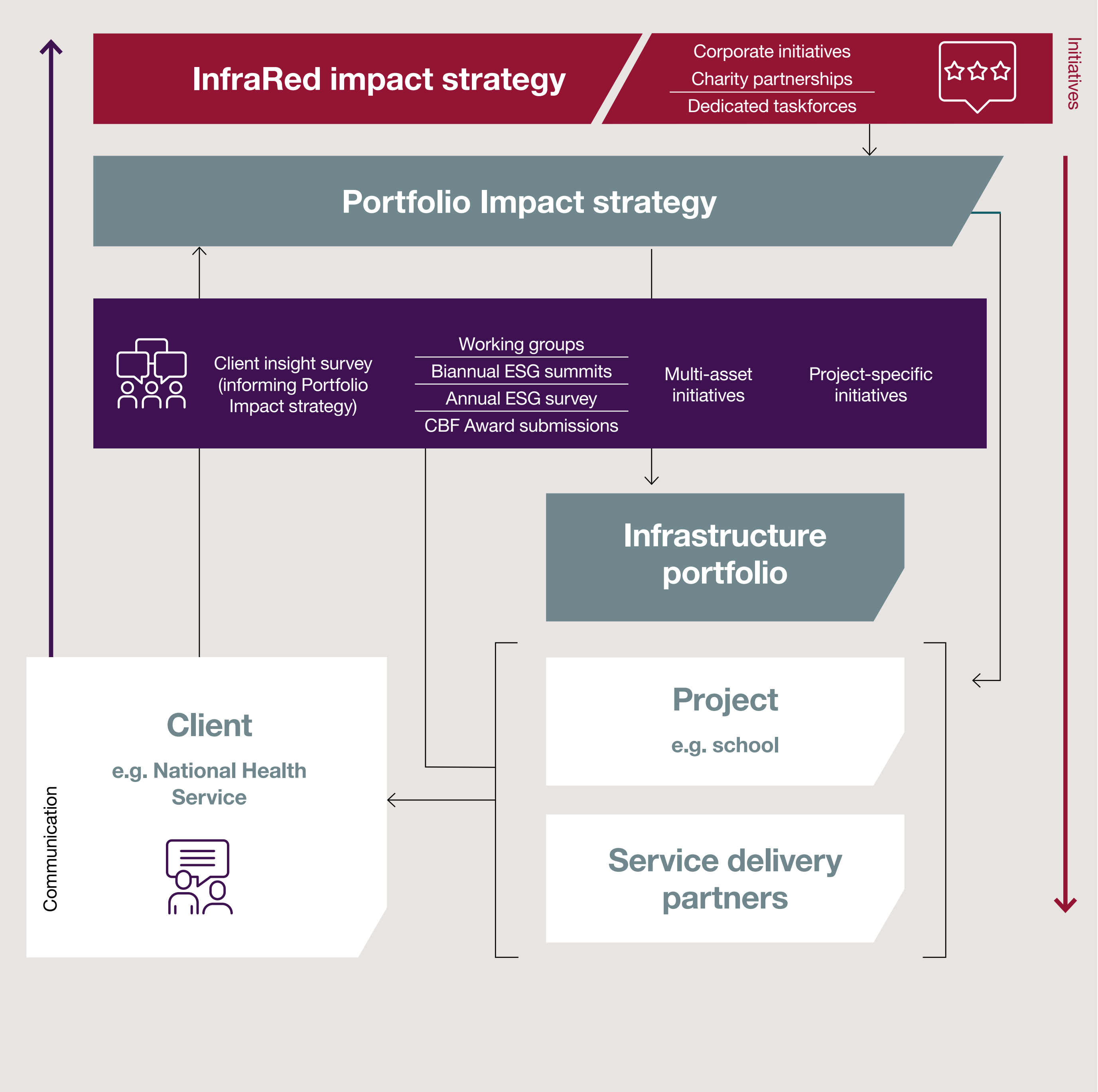
Around the world, millions of people use or interact with the assets in HICL's portfolio.

HICL recognises its responsibility as a trusted steward to these communities and the opportunity it has to enhance the lives and livelihoods of both users and operators of these essential infrastructure assets. Intrinsically, HICL's assets deliver social benefits by providing essential services to communities. However, by leveraging our resources, business relationships, and charitable partnerships HICL can go beyond contractual requirements and maximise social impact. The Investment Manager has a dedicated Portfolio Impact strategy to achieve this.

The objective of InfraRed's Portfolio Impact strategy is to help drive positive social outcomes and improve the relationships with public and private sector clients. With a better understanding of the challenges communities face through asset feedback, the Investment Manager can refine initiatives to address the needs of HICL's stakeholders either at a portfolio level or at project level. InfraRed is working to develop the strategy to involve formally tracking initiatives and sharing learnings across assets, particularly where scale opportunities are present.

84%

of assets implemented community engagement initiatives in FY24



Responding to the needs of clients

To gain a deeper insight into the challenges people working at our assets are facing, the portfolio impact team created the Client Insights Survey.

The survey was designed to capture the social challenges and satisfaction of the client teams that lead the end user facing service delivery at HICL's UK PPP assets. InfraRed launched the second iteration of the Client Insights Survey in March 2022 and received 61 client responses. When asked to highlight and rank their day-to-day challenges, over 50% of all clients responded that staffing constraints within their own teams was their primary issue. Several other clear themes emerged, including a lack of IT equipment and facility capacity constraints.

Initiatives

Client Insights Survey

This was completed in 2022 and improved InfraRed's understanding of the key social challenges HICL's healthcare and education clients and end users were faced with

Creating Better Futures Awards

These are annual awards to identify the most impactful initiatives InfraRed-managed projects have implemented

Idea generation

The output of the awards and the Client Insights Survey were used to identify initiatives that can be scaled across HICL's portfolio. InfraRed has identified five initiatives that could be replicated

Purple Book	Community Fridge	Charity Hub	Recirculate	Wellbeing Garden
A user guide for trust staff, patients and visitors to highlight facilities available	Provision of food for families in need	An area which provides space for charity volunteers to use as required	A programme to renovate, donate and locate items like bicycles for reuse	A programme to enhance the surrounding area and positively impact biodiversity
Queen Alexandra Hospital[1]	**Oldham School**	**Blackburn Hospital**	**West Middlesex Hospital**	**Peterborough Hospital[1]**
Birmingham Hospital	**Frederick Bremer School**	**Peterborough Hospital[1]**	**Southmead Hospital**	**Pinderfields and Pontefract Hospitals**

The Portfolio Impact Strategy will focus on targeted engagement with projects to transfer and replicate these initiatives for the maximum impact

Communication

1 Assets managed by InfraRed outside of HICL's portfolio

Community initiatives in action

Case study

The Community Hub

Northwood Ministry of Defence

Northwood MOD formed Team Northwood to bring together key stakeholders to discuss, plan and implement effective ESG initiatives. These initiatives use available resources to serve the local community and end users. Team Northwood formed the Community Hub in March 2023 and the past year has seen the recycling of non-perishable items and informational support around topics such as mental health, finance and DIY construction. The Community Hub also offered CV and interview technique guidance to several military personnel leaving the armed forces to assist them with finding employment opportunities matching their skills and goals.

Case study

Supporting those living with dementia

Affinity Water

HICL encourages its portfolio companies to create impact initiatives which address the needs of their communities. In March 2024, Affinity Water announced its grant funding allocation to the Red Shed Garden Project, a charity aimed at supporting individuals living with dementia in Hertfordshire by offering horticultural therapy, gardening activities, and social interaction opportunities. The grant funding will enable the Red Shed Garden Project to expand its services to reach more beneficiaries and will support the operation of four garden clubs offering tailored activities designed to meet the diverse needs and abilities of participants. The funding, facilitated in partnership with the Hertfordshire Community Foundation, also highlights Affinity Water's commitment to addressing local needs and promoting social wellbeing.

Recognising portfolio excellence

Just as important as creating and implementing community initiatives is recognising and rewarding HICL's portfolio company teams that are already making a positive impact in their local communities.

InfraRed's Creating Better Futures Awards are an annual event designed to celebrate success, share best practice and drive increased ESG activity across HICL's portfolio. Judged on the four criteria of innovation, community need, collaboration and resource efficiency, the Creating Better Futures Awards illustrate the importance placed by HICL and its Investment Manager on creating a positive impact for the communities served by our assets. Of the 38 submissions, 12 achieved the Gold Standard award, seven of which were initiatives put forward by HICL assets.

200+

With more than 200 ESG community initiatives reported across HICL's portfolio during the period, the Creating Better Futures Awards highlight only a subset of these but serve as a further incentive for HICL and InfraRed to continually seek to work for local communities and reward those assets making a positive difference.

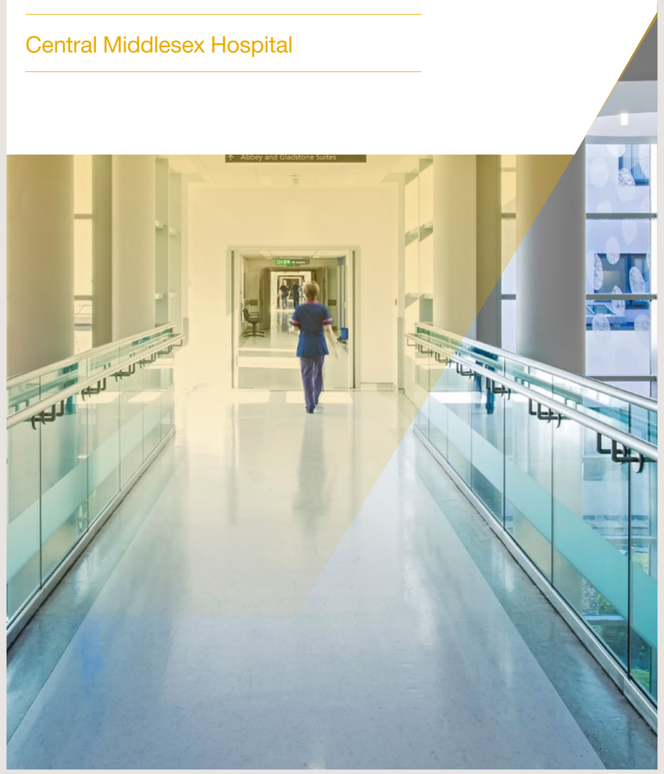
Three HICL assets that achieved the Gold Standard award

Tablet donations

West Middlesex Hospital

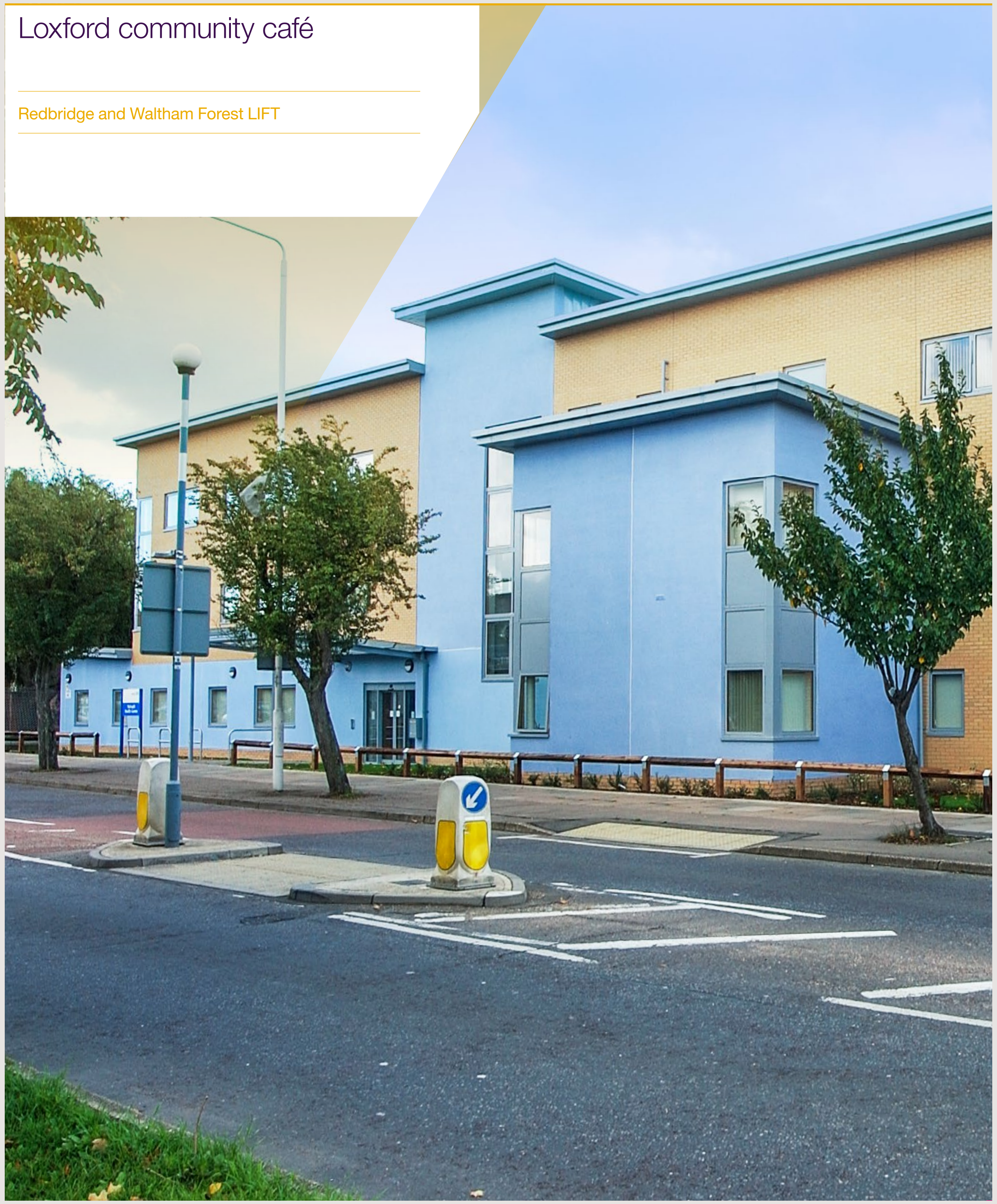
Staff training to support wellbeing initiatives

Central Middlesex Hospital



Loxford community café

Redbridge and Waltham Forest LIFT



People

Although HICL has no direct employees, it indirectly employs over 2,300 people through its portfolio companies and thousands more through each asset's supply chain.

Both the Board and Investment Manager recognise the Company's responsibilities in relation to the wellbeing of the people connected with HICL. Both HICL and InfraRed promote a diverse, inclusive and supportive workplace culture that makes work a positive experience for people, both directly and along the supply chain. InfraRed also works collaboratively with the management teams of HICL's portfolio companies and seeks to ensure that suppliers share the Company's values and comply with relevant legislation. To accompany that, members of InfraRed's senior management team have personal sustainability objectives. Although there is no direct link to remuneration associated with these objectives currently, InfraRed is continuing to explore the implementation of this element in the near term with the aim of further prioritising sustainable values at firm and project level.

In this section

People highlights

23%
Gender diversity at portfolio company boards
FY23: 27%

0.28
RIDDORs per project
FY23: 0.38

85%
Portfolio companies carried out an independent health & safety audit over the year
FY23: 96%

20%
Gender pay gap at portfolio companies
FY23: 20%

- Independent health & safety audits have not been undertaken for some of the new investments acquired during the reporting period which has impacted portfolio results. This will be addressed in the next reporting period
- HICL's RIDDORs have declined during the period due to InfraRed's proactive management of health & safety governance

Diversity, Equity and Inclusion[1]

The Company maintained its focus on diversity and expertise at Board level and continues to meet the expectations of both the Hampton Alexander Review and the Parker Review.

On 20 April 2022, the FCA published its final rules requiring the annual disclosure of data in relation to diversity on listed company boards and executive committees. The policy lays out targets for applicable boards to be made up of at least 40% women, with at least one senior board position to be held by a woman and at least one board member to be from a minority ethnic background. As at 31 March 2024, 42% (three) of the Board of Directors were women and 14% (one) was from an ethnic minority background.

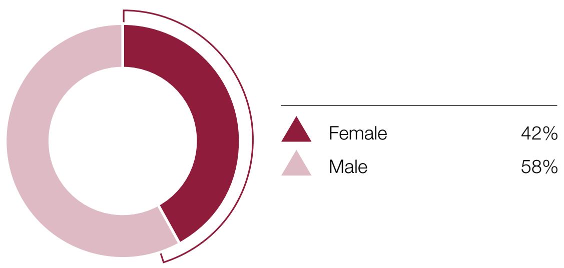
The FCA's Listing Rules require a listed company to disclose in its annual report whether it has met its diversity target of at least one senior position on its board of directors (i.e. Chair, Chief Executive, Senior Independent Director or Chief Financial Officer) being held by a woman. Furthermore, the Listing Rules recognise that such a disclosure requirement might not be appropriate in the context of Chapter 15 closed-ended investment companies, the boards of which typically comprise non-executive directors non-executive directors.

However, the HICL Board believes it important that this target should be substantively met, and accordingly would highlight that both the Chair of the Audit Committee and the Investment Manager's CFO, who is responsible for managing the financial activities carried out by the Investment Manager for the Company, are female.

HICL portfolio companies that employ staff directly have current and appropriate diversity and inclusion policies in place, along with dedicated asset managers that ensure the subject is regularly discussed at board meetings. This ensures that the portfolio companies are promoting a culture of equal opportunities for their staff and for board appointments. To improve the consistency of approaches and enhance the focus on this topic, InfraRed developed its own DEI guidance for these portfolio companies in the year and is now monitoring performance against this via the annual ESG survey. The information gathered will be used to form targeted action plans for assets where appropriate.

For the majority of portfolio companies where there are no direct employees, InfraRed monitors the implementation of diversity and inclusion policies amongst its direct service delivery partners (including HICL's facilities management counterparties).

Directors who are female



Promoting responsible supply chains

HICL recognises the importance of reinforcing its sustainability ethos and commitments throughout the entire operation and maintenance of its assets. This includes ensuring that the chosen suppliers mirror those same values and, in turn, provide a safe and healthy environment for their people.

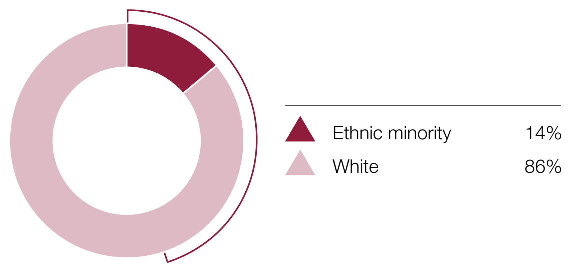
Responsible supply chains are therefore prioritised by actively seeking out suppliers who have strong standards when considering potential supply chain risks. Prior to investment, InfraRed takes primary responsibility for conducting due diligence to review prospective acquisitions against HICL's Sustainability Policy, which includes an assessment of HICL's potential exposure to modern slavery, human trafficking, and substandard working conditions. HICL will not knowingly support activities which amount to breaches of fundamental human rights, business ethics and compliance.

HICL engages with its portfolio companies and its direct service providers to confirm that critical policies on matters such as diversity and inclusion and modern slavery remain in place. In the year, for the first time, HICL's key service providers were asked to complete a code of conduct form as well as their usual self-assessment, allowing the Company to formally monitor compliance with key policies and standards. HICL's Management Engagement Committee, which considers how HICL's service providers adhere to its Sustainability Policy, reviewed the results and identified no material failings.

InfraRed uses the guidance of frameworks such as the United Nations Global Compact (UNGC) to ensure that high standards of fundamental human rights are upheld. The UNGC's ten principles cover inter alia human rights, labour rights and the fight against corruption.

InfraRed's processes require an early assessment of any ESG 'red flags' before proceeding to the next stage of the investment process and conducting due diligence in respect of prospective acquisitions, using a form of checklist that includes a focus on labour conditions, and screening contractors and other key counterparties to detect negative publicity and any history of ESG issues. InfraRed also actively monitors the existence of and compliance with key human rights-related policies across HICL's portfolio through its annual ESG survey.

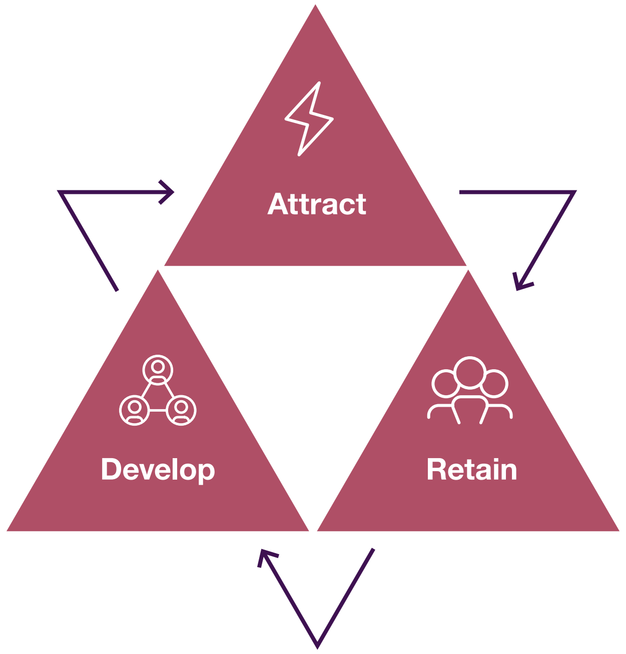
Directors from an ethnic minority



1 Also referred to as DEI Policy throughout this report

InfraRed's focus on its people

The approach of HICL's Investment Manager to fostering diversity, equity, and inclusion is built around a three-pillar framework to attract, develop, and retain diverse talent. Having set targets for diversity and inclusion in the previous reporting period, InfraRed has spent the past year focused on ensuring these targets remain embedded throughout the business. InfraRed has continued to work on implementing initiatives which foster an inclusive workplace and will demonstrate its commitment through progress against targets set.



Progress against the three pillars in the period:

Attract

Attracting and nurturing diverse talent, particularly at the early career stage, is one of the most powerful tools to affect positive change

- Ran an internship programme for four candidates, two of which have returned as permanent employees. Given the success of the programme, it will be repeated in the summer of 2024.
- Implemented a tracking system to monitor and report on the diversity of interviewer panels.

Retain

Staff who are valued and respected are more likely to feel empowered and bring their whole selves to work

- Delivered an internal speaker series, demonstrating the breadth of opportunities within InfraRed and offering career navigation advice.
- Arranged diverse cultural events to promote an inclusive workplace and give employees opportunities to celebrate together.
- Delivered workshops to promote wellbeing and mental health as part of InfraRed's ambition to grow the number of trained Mental Health First Aiders in its business.
- Established a Return to Work Transition Coaching Programme where external 1:1 coaching sessions are offered to all parents (men and women) returning to work after a period of absence, with the intention of supporting them through the adjustment process.

Develop

Embracing a diverse, equitable and inclusive workplace is critical to retaining and supporting the career progression of top talent

- Evolved its learning and development offering with a blended approach that includes both in-person and online learning opportunities for individuals and teams.
- Developed resources to help employees have meaningful career conversations with their managers. These explore the ways in which managers can support junior staff development and help employees understand how they can grow in their roles and move within the business.
- Delivered training for line managers on how best to integrate new joiners into the business.

1 Statistics on Diversity, Equity & Inclusion amongst the Investment Manager's staff are included in InfraRed's 2024 Sustainability Report

Case study

The London North West University Healthcare 2023 Staff Excellence Awards

Central Middlesex Hospital

The London Northwest University Healthcare (LNWH) Staff Excellence Awards are an annual celebration of the work done by NHS employees in the region. For a second consecutive year, the project company was one of the sponsors of this event, allowing over 600 staff members to attend at Wembley Stadium in September 2023. Over 900 nominations were received from patients and members of the public, with the Central Middlesex Hospital site receiving one award. The project company's sponsorship of this event helped to ensure critical healthcare workers were recognised for their efforts. It also reflects HICL's belief that the success of its portfolio companies is driven by the talents, passion and wellbeing of staff they employ either directly or indirectly.

Case study

120+ drivers committed to the safety of motorway staff

A63 Motorway

HICL is committed to promoting the fair and safe treatment of people involved in the development and operation of its projects. In June 2023, the portfolio company of the A63 motorway project hosted the 6th international meeting of heavy goods vehicle drivers and motorway staff. This event saw over 120 drivers attend to promote the safety of staff working on the motorway and allowed them to discuss traffic problems and potential solutions. The event was also well aligned with the national campaign on road worker safety run by the French Ministry for Ecological Transition and Territorial Cohesion and the Prefecture of the Nouvelle-Aquitaine region.

Governance

For HICL to act in a sustainable manner, it is important that its Board, Investment Manager and portfolio companies are accountable for their actions.

HICL's robust and ambitious corporate governance framework helps to ensure this is delivered and provides investors with transparency on the Company's sustainability strategy and the wider environmental and societal impacts of their investment.

The Board is responsible to shareholders for the overall direction and oversight of the Company, including sustainability matters. Further details on the Company's general approach to corporate governance can be found in the Corporate Governance section of HICL's 2024 Annual Report.

You can download the HICL Annual Report 2024, which goes into our governance in more detail here.

In this section

Governance highlights

97%
Portfolio companies conduct modern slavery training
FY23: 90%

100%
Portfolio companies have anti-bribery and corruption policies
FY23: 96%

80%
Portfolio companies have strong corporate governance
FY23: 94%

71%
Portfolio companies audit their modern slavery policies to ensure effectiveness
FY23: 93%

- The Investment Manager has increased the rigour of assessment in relation to good governance practices resulting in a decrease in two corporate governance metrics in comparison to last year. The intention is to work with companies to maintain strong performance across anti-bribery, corruption and modern slavery, as well as to raise standards in relation to disimproved metrics, with a particular focus on newer companies in the portfolio

Role of the Board and Committees

The Board has overall responsibility for sustainability and ensuring it is fully integrated into the Company's operations.

It also has responsibility for HICL's Sustainability Policy and other related policies (including modern slavery, health and safety and anti-bribery), which are subject to continuous development. Sustainability is a prominent theme which runs across HICL's entire business, and as such, it forms an integral part of the Board's role. This stems from its Terms of Reference where "sustainability, including the potential impact of climate change" is set out as a key strategic and financial consideration. The Board is supported in its role by HICL's various committees, who provide discussion, support and challenge. Some of these have specific responsibilities in relation to sustainability, for example:

- The Risk Committee oversees and challenges InfraRed's risk management processes and analysis, and has a specific remit to examine 'horizon' risks such as the long-term consequences of climate change and 'black swan' risks such as the impact of unforeseen extreme weather events
- The Management Engagement Committee considers how HICL service providers adhere to HICL's Sustainability Policy
- The Audit Committee reviews the Company's approach to disclosures, including those relating to climate change

Role of InfraRed

The application of HICL's Sustainability Policy and wider sustainability strategy is undertaken by InfraRed. InfraRed publishes its own sustainability policy, and sets out its strategy, roles and responsibilities in its Sustainability Report.

HICL's Investment Manager, InfraRed, has a dedicated sustainability team which is responsible for developing and implementing its sustainability strategy and programme and acting as a central knowledge point for ESG matters. The Head of Sustainability works closely with Senior Management and Investment Committee members to ensure that they in turn integrate sustainability initiatives within their business areas and funds under management. Moreover, InfraRed believes that it is the responsibility of all its staff to integrate sustainability throughout their day-to-day roles, be that sourcing and executing new investments, managing ESG considerations within the portfolio, communicating performance to investors or delivering InfraRed's central functions.

InfraRed's alignment with HICL's shareholders

The Investment Manager recognises that the investment company structure performs at its best when there is strong alignment between the Investment Manager and the Company's underlying shareholders. The acceleration of HICL's strategic asset disposal strategy to pay down the Company's RCF and the announced £50m share buyback programme demonstrate the commitment to this alignment, with both decisions made to bolster HICL's financial position and reinforce the appropriateness of the Company's valuations. InfraRed continues to have the lowest incremental management fee in the sector, and the Ongoing Cost Ratio for the Company is forecast to drop this year once all announced balance sheet management initiatives have been completed.

Investment policy, screening and management

For HICL's investments, InfraRed employs a comprehensive sustainability investment and management framework, based on a foundation of robust guiding principles, ensuring that sustainability is integrated into each stage of the investment process.

The framework spans the pre-investment activities, through to the management of the portfolio and corresponding reporting activities undertaken until the end of the investment life as depicted below.

InfraRed sustainability investment and management framework

InfraRed's investment process requires that all new investments undergo a climate risk assessment prior to acquisition and are continuously working to ensure the findings are appropriately translated into technical and insurance due diligence as well as in financial valuation models.

Pre-investment	**Negative screening**
	Checks made against InfraRed's and its funds' Exclusion Policy.
	Deal screening
	Initial identification of sustainability risks and opportunities.
	Counterparty searches completed to assess company sustainability performance.
	Due diligence
	Sustainability performance assessed in line with sector guidelines and regulatory requirements.
	Climate change risk assessment completed.
	Due diligence findings incorporated into investment valuation and/or risk mitigation plans.
	Sustainability action plan developed for implementation post-investment.
	Investment approval
	Sustainability due diligence findings and action plan presented to Investment Committee for consideration and approval.
Post-investment	**Management**
	Oversight of project governance and active management of sustainability aspects through Asset Manager's board representation.
	Implementation of the sustainability action plan developed in the due diligence phase.
	Annual ESG survey collects data for the key metrics (including regulatory requirements) in order to monitor sustainability performance.
	Sharing of best practices through guidance documents, case studies and the Creating Better Futures Awards.
	Engage with stakeholders on key sustainability themes such as biannual workshops, industry collaborations and targeted surveys.
	Reporting
	Fund and firm reporting in line with the best practice frameworks and regulatory requirements such as TCFD, EU Taxonomy and SFDR.
	End of investment life
	When divesting, counterparty searches are completed on potential acquirers and project sustainability performance is shared in the sale documentation.
	Environmentally and socially responsible approach to asset hand back/decommissioning, e.g. by applying principles of the circular economy.

Sharing of best practice & continuous improvement

InfraRed's investment framework in practice

As part of the pre-investment screening phase of its investment framework, the Manager's investment team will make sustainability-related checks against its Exclusions Policy. In the case of potential acquisitions specifically for HICL, as of 2023, InfraRed enhanced its application of the Exclusions Policy by setting quantitative thresholds to various exclusions based on the proportion of total revenue generated by the activity in question. The full set of thresholds used for HICL investments can be found on the Company's website.

Typically, HICL's investments do not have any material ESG risks associated with them; the Company's core infrastructure investments do not operate in traditionally high carbon sectors, the assets provide essential services to communities, and as a result are inherently well positioned. As described on the previous page, the Manager's pre-investment analysis is thorough and ensures that HICL's portfolio avoids including any potentially unsustainable assets.

Case study

District heating

In recent years, several countries have acknowledged the important role that district energy solutions are expected to play in decarbonising heat, which is currently a major source of greenhouse gas emissions. District heating: can harness a range of renewable or low-carbon energy sources; offers improved reliability and greater access to energy; and has higher energy efficiency than compared with traditional boilers.

Given the number of different models, ranging from small single facility schemes to major city-wide heating networks, InfraRed assesses each opportunity in this sector on its individual merits, and in each case this starts by considering the Company's exclusion policy.

In recent years, InfraRed has assessed but ultimately not progressed with a number of district heating opportunities which have not met HICL's strict requirements. This includes a German network which was still reliant on coal-powered generation (HICL has a zero-tolerance policy to coal-fired power), as well as a US opportunity which derived a large source of its revenue from a casino (HICL will not invest in companies which derive more than 10% of revenues from gambling-related activities).

InfraRed also monitors asset performance each year through its ESG survey and reports all metrics accordingly. The Manager then uses this information as a key resource to frame its engagement. For example, if it is found that an asset has no renewable energy consumption, HICL may support the asset in investigating potential contract changes and self-generation, amongst other solutions. This active management is key to ensuring HICL's assets maintain high levels of sustainability practice in the day-to-day service of their communities.

Case study

Hornsea II, OFTO

The Hornsea II OFTO comprises the offshore transmission assets associated with the Hornsea II Windfarm, which in turn features 165 wind turbines generating 1.3 GW of renewable energy, enough to power over 1.4 million UK homes. HICL and its consortium partners were appointed as preferred bidders to own and operate the OFTO in September 2022, with the transaction completing in July 2023.

Most of the electricity generated by the windfarm flows directly into the grid and is distributed to a range of end users across the country. However, at times of excess generation, Hornsea II OFTO will transmit electricity from the windfarm to a Hydrogen GigaStack project, which aims to produce green hydrogen via electrolysis. As such, it contributes to the UK government's Industrial Decarbonisation Strategy.

During InfraRed's extensive due diligence process, it was discovered that an end user for the green hydrogen was a local oil refinery. Because the Hornsea II OFTO project does not itself derive any revenue from the oil refining itself, the opportunity was judged not to be in contravention of HICL's exclusion policy. However, given that the revenue threshold under the policy is zero, the HICL Investment Committee and InfraRed's Head of Sustainability were asked to consider and approve the specific sustainability considerations of the project.

It was concluded that the benefits of owning the project, most notably facilitating the transmission of renewable energy, outweighed the potential concern of the indirect linkage to the oil refinery. The Investment Committee also noted that the green hydrogen produced by the project's direct offtake was consistent with HICL's net zero ambitions, and that the relationship with the refinery was ultimately comparable to that of any end user of the electricity supplied by the windfarm.

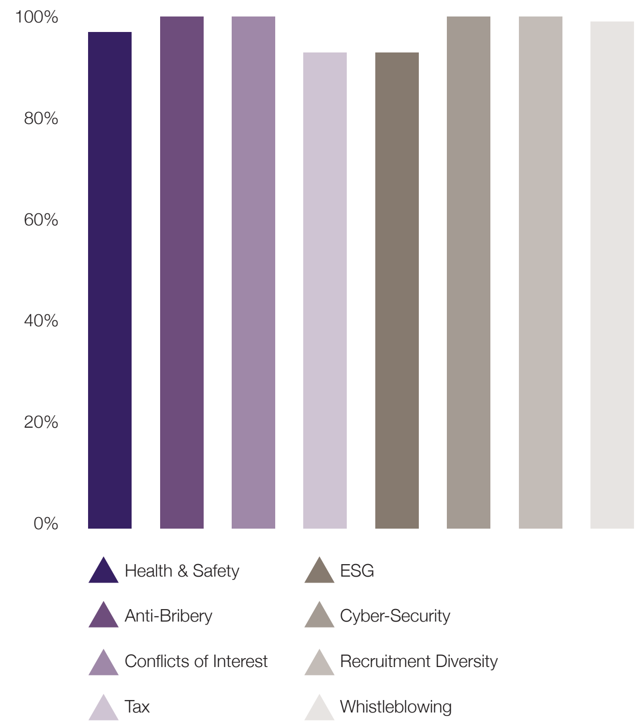
Investment policy, screening and management continued

Managing portfolio company governance via the ESG survey

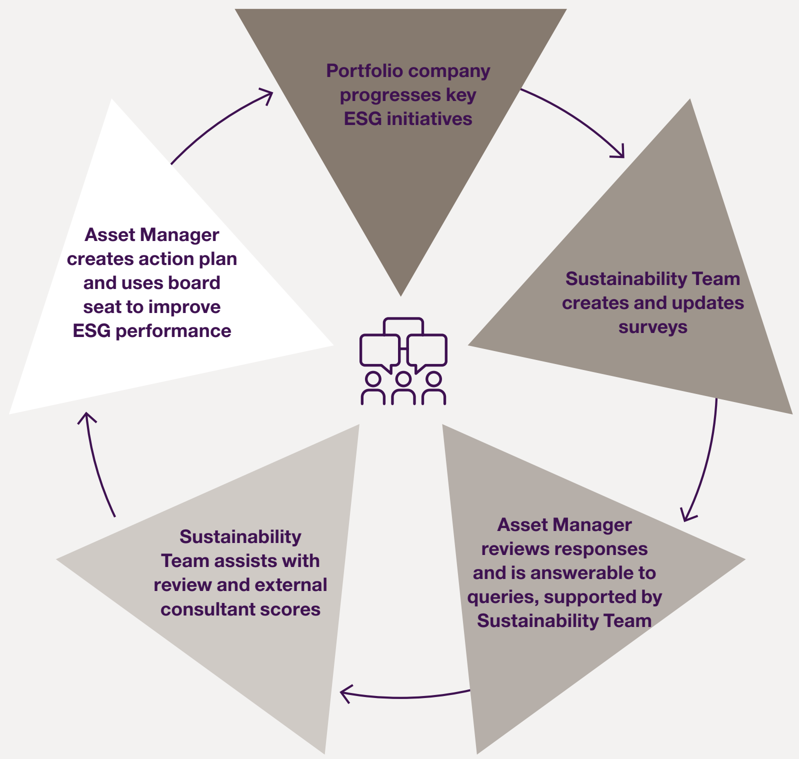
In addition to active asset management through setting clear expectations and conducting regular site visits, the Company also uses the Investment Manager's annual ESG survey as a tool to assess performance against sustainability metrics.

InfraRed's annual ESG survey is completed by all portfolio companies and provides a snapshot of performance which informs engagement activities for the year ahead.

Percentage of portfolio companies with the following policies in place



Collaboration between InfraRed's Sustainability and Asset Management teams



Technology

Cyber security

HICL has no IT systems and relies solely on those of its service providers, particularly InfraRed.

To effectively undertake its duties as HICL's Investment Manager, InfraRed depends on precise and comprehensive data that is readily available to authorised personnel only. It is committed to safeguarding the information it holds on HICL's assets, employees, investors, and wider operations. The ultimate responsibility for cyber security sits with InfraRed's CEO, Jack Paris, and there is a dedicated Technology team within InfraRed which manages its strategy, processes, and policies. Prudent cyber risk management practices are at the forefront of InfraRed's risk management framework and fully embedded within its operations.

InfraRed's framework for cyber security is aligned with the Cyber Essentials Plus process, a UK government-backed cyber security scheme providing guidance to help organisations measure their defences against common forms of cyber attacks. Obtaining the Cyber Essentials Plus validation required the completion of a detailed cyber security questionnaire, external network penetration testing, and an on-site review of InfraRed's machine builds to assess defence mechanisms.

99%
of assets reported that their IT systems were externally reviewed, tested, or certified every 12 months

100%
of assets reported having a cyber security policy in place

Highlights for FY 2024

A better understanding of the exposure to cyber risk

InfraRed undertook a project to better understand its exposure to cyber risk at the portfolio company level and identify opportunities to enhance existing processes. During the year, InfraRed completed the following:

- Updated its Cyber Policy template for HICL's portfolio companies to follow
- Developed a Cyber Guidance document for its Asset Management team
- Developed a qualitative questionnaire which will form part of its new acquisition process
- Undertook a detailed gap analysis of HICL's assets against the National Institute Standards and Technology (NIST) framework to understand and improve the management of cybersecurity risk at the portfolio company level.

Outlook for FY 2025

CYBER ESSENTIALS CERTIFIED PLUS

- InfraRed will implement a tailored cyber risk management training to all Asset Managers within its business
- InfraRed will release a newly developed multiple-choice quantitative questionnaire to HICL's portfolio companies to enhance the Investment Manager's understanding of cyber risk across the portfolio
- InfraRed will renew its Cyber Essentials Plus certification

Regulatory frameworks and disclosures

HICL's commitment to sustainability best practice remains evidenced by the Company's alignment with several key regulatory frameworks in the period:

Sustainable Finance Disclosures Regulations and EU Taxonomy

During the year, the Company continued to adhere to the requirements set out under the EU Sustainable Finance Disclosures Regulations ("SFDR") regime and has been compliant with the relevant provisions of SFDR since they first became live in March 2021.

InfraRed has chosen to disclose the Company in accordance with Article 8 of the SFDR on the basis that it:

> "*promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices*".

On 1 January 2023, the final Regulatory Technical Standards ("RTS") of SFDR came into effect. Prior to this date, an updated version of the Company's Article 23 pre-contractual disclosure which included the prescribed SFDR template was uploaded on the HICL website, in compliance with the updated RTS requirements for funds disclosing under Article 8.

Leveraging data collected in InfraRed's annual ESG survey, the Company continues to consider Principal Adverse Impact ("PAI") indicators under SFDR. These can be found in the prescribed template format as an Appendix to this report and in HICL's 2024 Annual Report, but some of these PAIs also feature in the Sustainability metrics and targets on pages 12 and 13.

In accordance with the periodic disclosure requirements under Article 11 of SFDR, HICL is required to make further disclosures regarding how the Company met its environmental and social characteristics, which are included as an Appendix to this report and are also included in the Company's 2024 Annual Report. In a number of instances, the Company has taken a prudent approach given the nascency of the framework:

- None of HICL's investments are currently assessed to be aligned with the EU Taxonomy, as this predominantly applies to assets with environmental characteristics rather than social characteristics. InfraRed has assessed that approximately 20% of HICL's assets are likely to be eligible for the EU Taxonomy, but has not undertaken a formal assessment at this stage.
- At this stage none of HICL's portfolio has been classified as 'Sustainable Investments' in accordance with the definition provided in Article 2(17) of SFDR. The SFDR definition of sustainable investments includes a number of requirements such as that the investments must not cause significant harm to any environmental or social objectives (also known as the Do No Significant Harm test). This requires an assessment of any investment against the principal adverse impact (PAI) indicators contained in Annex I of the RTS. InfraRed plans to further analyse the PAI indicators, and align with broader industry interpretation of these requirements, in order to determine the extent to which HICL's portfolio may constitute a sustainable investment.

Sustainable Disclosure Requirements (SDR)

In November 2023, the FCA published the final rules on Sustainability Disclosure Requirements ("SDR") and investment labels, with the first requirement, the FCA's anti-greenwashing rule, taking effect from May 2024. Certain UK-domiciled funds, such as HICL, fall within the scope of the SDR. The SDR enables in-scope funds to apply the FCA's sustainability investment labels from 31 July 2024, as well as requiring additional consumer-facing and pre-contractual disclosures where the fund promotes sustainability characteristics from 2 December 2024.

At this time, HICL has chosen not to apply a sustainable investment label, however, given the Company's investment proposition and sustainability characteristics, and in line with the commitment to ensuring that consistent and reliable sustainability information is available to HICL's investors, the Investment Manager has already made available consumer-facing and pre-contractual disclosures in respect of the Company. The disclosures can be found at here.

The Investment Manager will continue to monitor the FCA's approach to sustainable investment labels and will review the Company's investment approach for any alignment with such a label as matter of best practice.

Task Force on Climate-related Financial Disclosures (TCFD)

The recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), of which both HICL and InfraRed are supporters, is the established framework for consistent, comparable and clear reporting on a company's approach to climate change and assessing its potential impact on the Company.

HICL began voluntarily reporting against a subset of the 11 TCFD disclosure recommendations in its 2020 Annual Report. For the fourth consecutive year, HICL is able to report across all 11 recommended disclosures.

The Company's full disclosure is set out on pages 50 to 55 and can also be found in the Company's 2024 Annual Report. Both the Board and Investment Manager share the view that TCFD should be viewed through the lens of continuous improvement and HICL has been able to enhance the disclosure provided this year by incorporating the results of a new, portfolio-wide climate change impact assessment conducted by Willis Towers Watson.

Looking forward

	Delivered in FY24	FY25 objectives
Environment	– Creation of a detailed net zero transition plan for HICL's portfolio, including specific asset transition plans for the next three years – InfraRed contributed to the IPA Guidance Document on Operational Decarbonisation at PFIs – Reduction in Total Attributable GHG Emissions generated by the portfolio to 89,559 tCO_2	– Formalise and implement a short-term net zero transition plan for HICL's entire portfolio – Incorporate recommendations of the TNFD framework in InfraRed's approach for monitoring biodiversity across the portfolio – Formalise waste and water reduction plans for HICL's portfolio
Communities	– InfraRed Portfolio Impact initiatives were rolled out across several HICL assets to address client challenges raised in InfraRed's latest Client Insights Survey – Seven HICL projects obtained a 'gold standard' award in InfraRed's annual Creating Better Futures Awards	– Develop a structured process for monitoring HICL's community initiatives which allows for knowledge to be exchanged between assets and results in the dissemination of successful practices
People	– Code of conduct forms were introduced for completion by HICL's main service providers, allowing the Company to formally monitor compliance with key policies and standards – Developed, implemented and rolled out DEI guidance for portfolio companies that directly employ staff, and monitored performance against this via the annual ESG survey	– Leverage InfraRed's annual ESG survey to identify areas for improvement relating to policies and processes for DEI at the portfolio company level and, where appropriate, engage with management teams where it will engage assets to develop processes and embed targets within their business strategies
Governance	– Disclosed HICL's first set of year-on-year comparisons of PAIs and GHG emissions – ESG-specific investor perception survey carried out with c.25% of HICL's shareholder register	– Working with portfolio company management teams, improve the adoption of key policies and procedures, particularly for more recent acquisitions

> The bar for sustainability performance and disclosures continues to rise and we strive to exceed growing expectations. InfraRed remains firm in the belief that long-term success for all of HICL's stakeholders is dependent on a steadfast commitment to sustainability and responsible stewardship.

Edward Hunt
Head of Core Infrastructure Funds, InfraRed

Appendix
Regulatory frameworks

EU Sustainable Finance Disclosure Regulation (SFDR)	– Compliant with Level 1 requirements which came into effect 10 March 2021. – Compliant with Level 2 requirements which came into effect on 1 January 2023 by incorporating the relevant PAI indicators into its ESG survey. – HICL has been classified as Article 8.
EU Taxonomy	– None of HICL's investments are currently assessed to be aligned with the EU Taxonomy, as this predominantly applies to assets with environmental characteristics rather than social characteristics.
International Sustainability Standards Board (ISSB)	– InfraRed is tracking the developments of ISSB, a global framework that is expected to consolidate sustainability-related disclosures in the coming years.
Net zero Asset Managers Initiative	– InfraRed has committed to reaching net zero across HICL's entire portfolio by or before 2050. – InfraRed's initial target disclosure was submitted in November 2022.
Principles for Responsible Investment	– InfraRed has been a signatory to PRI since 2011 and has reported under this framework since 2014. – InfraRed has maintained an A+ rating for Strategy and Governance since the 2015 assessment period. – InfraRed received a 4-star rating for the newly introduced Confidence Building Measures (CBM) module introduced in the 2023 assessment period.
Science-based targets	– InfraRed's net zero approach is aligned with SBTi methodology.
Sustainable Development Goals	– HICL contributes to several of the UN Sustainable Development Goals (SDGs). – HICL's contribution to the SDGs can be found earlier in this Sustainability Report and outlines our direct and indirect alignment.
Taskforce on Climate-related Financial Disclosures (TCFD)	– HICL has been a TCFD supporter since 2020. – Physical and transition risks have been assessed for all assets and reported as part of the TCFD disclosures in this report. – HICL has been voluntarily reporting under TCFD since early 2020 ahead of this becoming mandatory for listed funds in 2021.
Task Force on Nature-related Financial Disclosures (TNFD)	– InfraRed is tracking the TNFD framework releases and is currently working to develop a strategy to more effectively measure and reduce HICL's impact on biodiversity.
UK Sustainability Disclosures Requirements (SDR)	– At this time, HICL has chosen not to apply a sustainable investment label to itself, but the Company will continue to monitor the FCA's approach to labels. – InfraRed's Compliance team is working to ensure that HICL is complying with the anti-greenwashing rule as part of its SDR requirements.
The Corporate Sustainability Reporting Directive	– InfraRed has undertaken an assessment of HICL's portfolio to understand which assets will be impacted by the Corporate Sustainability Reporting Directive. This will not be applicable to any HICL assets before 2026.
Sustainability Accounting Standards Board (SASB)	– InfraRed uses the SASB standard to inform materiality considerations when completing due diligence for new investments.
Partnership for Carbon Accounting Financials (PCAF)	– HICL discloses Scope 1 and 2 emissions, and material Scope 3 emissions in line with the PCAF standard.
GHG Protocol	– HICL discloses Scope 1 and 2 emissions, and material Scope 3 emissions in line with the relevant standards and guidelines of the GHG protocol.

SFDR Principle Adverse Impact ("PAI") Disclosures

The indicators set out below outline HICL's non-financial impact of its investments in accordance with Article 7 of the SFDR. The Company has reported in line with all 14 mandatory PAIs and 7 voluntary PAIs to provide a high level of transparency as to HICL's ESG performance and to enable HICL's shareholders to meet their own regulatory and voluntary reporting requirements.

The Sustainability Report outlines the actions already taken as well as actions planned in order for HICL to improve performance against these PAIs. To read about those specific metrics and targets, please see pages 12-13.

All PAIs have been calculated in accordance with the requirements of Annex 1 of the SFDR Regulatory Technical Standards (RTS) and as indicated in the notes below.

Mandatory indicators

Adverse sustainability indicator		Metric	Unit	Metric as at 31 December 2023	Portfolio Coverage
Greenhouse gas emissions[1]	1. GHG emissions	Scope 1 GHG emissions	tCO_2e	**30,400**	100%
		Scope 2 GHG emissions	tCO_2e	**23,534**	100%
		Scope 3 GHG emissions	tCO_2e	**35,625**	100%
		Total GHG emissions	tCO_2e	**89,559**	100%
	2. Carbon footprint	Carbon footprint	tCO_2e/€m invested	**23**	100%
	3. GHG intensity of investee companies	GHG intensity of investee companies	tCO_2e/€m revenue	**239**	100%
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	%	**0**	100%
	5. Share of non-renewable energy consumption and production[2]	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	%	**86**	93%
	6. Energy consumption intensity per high impact climate sector[3]	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	GWh/€m	**0.01**	100%
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	%	**0**	99%
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	Tonnes/€m	**0**	99%

SFDR Principle Adverse Impact (“PAI”) Disclosures continued

Adverse sustainability indicator		Metric	Unit	Metric as at 31 December 2023	Portfolio Coverage
Waste	9. Hazardous waste and radioactive waste ratio[4]	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	Tonnes/€m	**0.80**	100%
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	%	**0**	99%
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/ complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	%	**18**[5]	99%
	12. Unadjusted gender pay gap[6]	Average unadjusted gender pay gap of investee companies	%	**20**	32%
	13. Board gender diversity[7]	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	%	**23**	99%
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	%	**0**	100%

Voluntary climate and other environment-related indicators

Adverse sustainability indicator		Metric	Unit	Metric as at 31 December 2023	Portfolio Coverage
Greenhouse gas emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	%	**24**[8]	99%
Water, waste and material emissions	7. Investments in companies without water management policies	Share of investments in investee companies without water management policies	%	**11**[8]	99%

Voluntary indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse sustainability indicator		Metric	Unit	Metric as at 31 December 2023	Portfolio Coverage
Social and employee matters	1. Investments in companies without workplace accident prevention policies	Share of investments in investee companies without a workplace accident prevention policy	%	**3**	99%
	2. Rate of accidents	Rate of accidents in investee companies expressed as a proportion of the total number of investee companies	RIDDORs per project	**0.28**	120 projects
	6. Insufficient whistleblower protection[8]	Share of investments in entities without policies on the protection of whistleblowers	%	**2**	99%
Human rights	11. Lack of processes and measures for preventing trafficking in human beings[9]	Share of investments in investee companies without policies against trafficking in human beings	%	**6**	99%
Anti-corruption and anti-bribery	15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption	%	**0**	99%

1 Calculated using valuation information as at 31 March 2024.
2 Calculated as the average of each investee companies’ share of non-renewable energy as a proportion of its total energy consumption.
3 As per our interpretation of the material sectors based on NACE code categories A-H and J-L, the following sectors would be considered as high impact climate sectors: road, rail, power transmission and water treatment.
4 Calculated as the weighted average based on investment value to date.
5 The UN Global Compact is a newer framework which has been recently introduced as a requirements in respect to human rights. Hence, a number of the projects or subcontractors haven’t updated their processes to align with this framework yet. Given its prominence, through InfraRed, HICL will look to work with portfolio companies to improve alignment over the coming years.
6 This metric refers to Affinity Water and Altitude Infra only, as these are the two assets in HICL's portfolio with the required number of employees to meet the criteria of this PAI. Portfolio coverage for this metric is shown as a proportion of the valuation of portfolio companies which have direct employees.
7 Calculated as the average of each investee companies’ board gender diversity.
8 Share of investments calculated by valuation as at 31 March 2024.
9 Share of investments calculated by valuation as at 31 March 2024. For the purposes of this metric we have assessed whether a project undertakes training. and audit procedures in respect to the UK Modern Slavery Act 2015 or equivalent .

TCFD

Governance

The Board and Investment Manager strongly believe that making a proactive and positive contribution to climate action is in the best interests of HICL's shareholders, clients and wider stakeholders. This has become clearer in recent years as extreme weather events and rising sea levels are increasingly visible consequences of greenhouse gas emissions.

On behalf of HICL, InfraRed actively identifies and mitigates the risks that climate change poses to the Company whilst also looking to reduce the actual and potential adverse impacts of business decisions on societies and the environment. The disclosures below provide key climate-related information, and cross-references to where additional information can be found (either within this report, or within HICL's 2024 Annual Report, published on the HICL website on the same day as this report).

HICL began voluntarily reporting against a subset of the 11 TCFD disclosure recommendations in its 2020 Annual Report and Financial Statements and has reported against all 11 recommendations since 2021. HICL has complied with the requirements of LR 9.8.6R, by including climate-related financial disclosures that are consistent with the four TCFD pillars and the 11 recommended disclosures that are set out on page 55. We also acknowledge that there is always scope for improvement, and that there are certain areas where the Company is in the process of gathering and publishing more data.

HICL's robust corporate governance framework provides investors with transparency on the Company's sustainability strategy and the wider impact environmental and societal impact of their investment, including in relation to climate change.

The Board has overall responsibility for the oversight of HICL's sustainability risks and opportunities, of which climate change is an important subset. The Board and the Investment Manager meet on a quarterly basis, during which they review the risks facing the Company, including risks related to climate change.

Sustainability is also a key topic at the Board's annual strategy meetings.

Some of the Board's committees also have key roles:

- The Risk Committee oversees and challenges InfraRed's risk management processes and analysis, and has a specific remit to examine 'horizon' risks such as the long-term consequences of climate change
- The Management Engagement Committee considers how HICL service providers, including InfraRed, adhere to HICL's Sustainability Policy
- The Audit Committee reviews the Company's approach to disclosures, including those relating to climate change

In relation to climate-related opportunities, the Investment Manager presents a review of the market to the Board on a quarterly basis. As part of this review, potential new acquisition opportunities are highlighted, including those which directly support the transition to a low-carbon economy.

Although management of the portfolio, as well as investment decisions within agreed parameters, is delegated to InfraRed as the Investment Manager, the Board has overall responsibility for the Company's investment policy.

Further information on HICL's corporate governance framework is provided on page 77 of HICL's 2024 Annual Report. A diagram setting out HICL's reporting and risk management framework is set out on page 53 of HICL's 2024 Annual Report.

Strategy

In FY24, InfraRed engaged Willis Towers Watson ("WTW") to conduct a refreshed climate change impact assessment of HICL's portfolio[1]. Since November 2021, when this portfolio-wide exercise was first completed, all new investments have been subject to a climate change impact assessment as part of InfraRed's pre-investment process.

The process and methodology undertaken by the Investment Manager to analyse potential physical and transition risks consists of four stages.

The Investment Manager has identified that in the short term, based on current climate conditions, HICL's assets remain exposed to various acute and chronic physical risks arising from climate change (see pages 52 and 55), but the overall exposure is limited, and mitigations are in place. The Group may also be exposed to transition risks if there are rapid, unexpected changes to government policy, which are more likely under the 1.5°C scenario as set out below. In general, the portfolio-level findings of the climate change impact assessment demonstrate that the Group remains highly resilient to both physical and transition risks associated with climate change.

Process and methodology

The flow chart below sets out the process undertaken by the Investment Manager and WTW:

1 Portfolio physical risk assessment

A location-based quantitative and qualitative physical risk assessment of HICL's portfolio based on three scenarios:

Scenario	Assumed global temperature increase from pre-industrial times by the end of the century	Representative Concentration Pathways (RCP)[2]
Hothouse world	4°C	8.5
Middle of the road	2-3°C	4.5
Net zero by 2050 scenario	1.5°C	2.6

2 Impact assessment

Assessment of acute and chronic hazards with the potential to reduce the availability and capacity of specific assets using proprietary in-house developed vulnerability models.

3 Modelling

Modelling of potential financial losses associated with current and future physical risks arising from climate change. These were modelled over short-term (now until 2030) and long-term (beyond 2040) time horizons.

4 Transitional risk assessment

As part of the assessment, transitional risks were also identified.

Key outputs

Overall level of exposure to physical risks based on current and future conditions (by project value), assuming no mitigation

Potential financial exposure from flooding/wind storm (project-level costs, 100% level) assuming no mitigation

Transition risks and opportunities by sector

Next steps

Flow down of climate risk information to project company management teams

Update of operational procedures and processes at project level if required

Focused engagement with clients

Reporting back to HICL Risk Committee

1 Excluding the Company's investments in A13 senior bonds
2 RCPs specify concentrations of greenhouse gases that will result in total radiative forcing increasing by a target amount by 2100, relative to pre-industrial levels

TCFD continued

Physical risk analysis:

The primary impact of climate change for HICL is likely to be borne by its portfolio companies: increased operating costs or reduced revenues as a result of physical risks materialising. In many cases physical mitigation measures already exist and there is a degree of contractual protection from increased costs to implement further measures. Such risks are likely to be exacerbated under a 4°C scenario, whereas under a 1.5°C scenario assets are more likely to be impacted by transition risks.

As part of the assessment, assets were given an overall hazard exposure score considering their respective exposures to acute and chronic hazards. Under the 'current' climate scenario, 17% of HICL's portfolio by value[1] has a hazard exposure score above 3 (medium). This falls to 7% under the 4°C scenario beyond 2040, demonstrating the resilience of the portfolio even in the event of extreme climate change.

Beyond 2040, under a 1.5°C scenario the impact of transition risks could be greater, but many assets have inherent protection as they provide vital services and have low direct emissions. Conversely, there is likely to be greater scope to take advantage of opportunities arising from the energy transition, such as asset repurposing and additional investment.

HICL's main physical risk exposures based on both current and future conditions are to winter storms, subsidence, river flooding and coastal flooding which is expected based on the weighting of the portfolio towards Northern Europe. Geographical location is also an inherent mitigant against other physical risks such as drought and heat stress. Although some assets have very high exposure to flooding, significant physical mitigation already exists in the form of flood defences, particularly in low-lying countries such as the Netherlands.

The potential annual loss across the portfolio from windstorms and flooding is not expected to be material, with mitigation measures further reducing any impact in 'severe' years. HICL's assets benefit from comprehensive insurance policies, which include physical damage as a result of climate-related events.

Transition risks analysis:

Examples of transition risks under a 1.5°C scenario include increased public transport use, a reduction in overall journeys and car sharing, which could impact some of HICL's demand-based assets.

A transition to a low-carbon economy also presents a number of opportunities. The primary example is the need for related investment such as rapid charging or retrofitting of energy efficiency solutions. A key tenet of HICL's vision is to support sustainable modern economies by investing in assets linked to the energy transition, and a 1.5°C scenario is likely to increase the number of investable opportunities in this space.

As is common with real assets, insurance is one of the primary risk mitigants against the financial impact of physical damage. In the future, and particularly under a 4°C scenario, it is possible that the cost of obtaining insurance increases as a result of the increased likelihood of severe weather events, although this is likely to be limited to a small number of assets. The impact of climate change risks on future insurance premia is factored into the assumptions used in the valuation of each of HICL's assets.

Summary of material risks and opportunities:

TCFD Category	Climate-related trend	Potential financial impact	Potential materiality
Physical	Flooding	**Risk:** Damage to physical structures resulting in unavailability / increased cost	4°C – Low 1.5°C – Low
Physical	Winter storm	**Risk:** Damage to physical structures resulting in unavailability / increased cost	4°C – Low 1.5°C – Low
Physical	Drought	**Risk:** Usage restrictions or increased costs at Affinity Water **Opportunity:** Increased long-term investment required at Affinity Water	4°C – Med 1.5°C – Low
Transition	Retrofitting of energy efficiency solutions	**Opportunity:** Variation contracts awarded for existing PPP assets	4°C – Low 1.5°C – Low
Transition	Increased public transport use	**Risk:** Lower traffic using toll roads **Opportunity:** greater usage of HS1	4°C – Low 1.5°C – Med
Transition	Move towards electric vehicles and trains	**Opportunity:** Co-located EV charging at HICL's toll road projects **Opportunity:** Long-term use case for XLT	4°C – Low 1.5°C – Low
Transition	Increased need for renewable energy	**Opportunity:** Long-term use case for OFTO	4°C – Low 1.5°C – Low
Transition	Remote working	**Risk:** Reduced traffic volumes using demand-based transport assets **Opportunity:** Greater take-up and adoption of technology benefitting communications assets	4°C – Low 1.5°C – Med

1 By value, using the Directors' Valuation at 31 March 2024 excluding A13 senior bonds.

Risk management

How we identify and assess climate risk:

For new acquisitions, climate-related risks are considered throughout the investment process by the Investment Manager. At the deal screening phase, the identification of climate-related risks (physical or transition) and the potential impact (positive or negative) are mandatory requirements. Furthermore, the completion of a climate change risk assessment prior to entering into a transaction is now a formal condition of approval.

For existing projects, risks have been identified and assessed through a detailed climate change impact assessment, as set out on pages 21, 51 and 52. The Company's portfolio companies use the results of this assessment to undertake proactive monitoring and assessment at the project level.

Over the year, InfraRed's Asset Management team engaged with the management teams of HICL's portfolio companies. Using the climate change impact assessment, the vast majority of HICL's portfolio companies have adopted the findings by discussing climate-related risks and opportunities at board level, updating risk matrices, and developing and implementing mitigation and resilience strategies as appropriate.

How we manage our risks:

InfraRed's Asset Management team ensures the timely reporting of project-specific risks relating to climate change to the HICL Fund Management team as and when they arise; the HICL Investment Committee also undertakes a formal review of all project-specific risks on a quarterly basis. This process ensures that material climate-related risks feed into the Investment Manager's quarterly reporting to the Risk Committee, which in turn reports to the Board.

The Company's positioning with respect to a transition to a low-carbon economy is primarily considered through the Investment Manager's active approach to asset management and portfolio construction.

HICL's core infrastructure investments provide essential services to communities, and as a result are inherently well positioned. For HICL's PPP projects, energy use is driven by the client, with the portfolio company generally responsible for maintaining the equipment which provides the building's heating, cooling and lighting. Any changes to these systems required under a 1.5°C scenario would usually be accounted for under existing lifecycle budgets or alternatively treated as a contract variation. In relation to HICL's GDP-correlated demand-based assets such as toll roads, which may be exposed to transition risks and opportunities under a 1.5°C scenario, these benefit from strong strategic positioning. The Company also invests directly in assets which are likely to benefit from a low-carbon transition, such as OFTOs.

More broadly, InfraRed's exclusion policy specifically covers carbon-intensive industries such as coal, oil and gas (where not aligned to a low-carbon transition) and HICL does not invest in assets whose primary purpose is electricity generation.

Sustainability considerations are incorporated into the Investment Manager's risk management framework, which is used as the basis of risk reporting to the HICL Risk Committee. In particular, sustainability features as a material risk in the following risk classes:

- **Political risk**: in particular, policies associated with the transition to net zero carbon emissions
- **Operational risk** – execution: through transaction due diligence and investment decisions
- **Portfolio performance risk:** sustainability risks can affect operational performance, including transitional and physical risks associated with adverse climate change

Climate change risk is an explicit building block of portfolio performance risk. Individual project companies submit regular progress reports to InfraRed on the mitigation measures they are taking in response to the climate change impact assessment. In turn, this enables the HICL Risk Committee to consider the overall impact and opportunities of climate change at fund level.

TCFD continued

Metrics and targets

GHG emissions

HICL has disclosed the combined Scope 1, 2 and 3 greenhouse gas emissions of its entire portfolio for calendar year 2023. These can be found on page 23 of this report. The accurate measurement and disclosure of emissions forms an important part of InfraRed's wider strategy relating to InfraRed's net zero commitments, further details of which are provided on page 15 of this report.

Due to the nature of its business, HICL has no Scope 1 or Scope 2 greenhouse gas emissions. The Company's Scope 3 emissions primarily relate to the emissions of its portfolio companies, although there is also a small contribution from office use and business travel (which is offset using an accredited scheme).

Emissions (Attributable basis)	Year ended 31 December 2023
Scope 1	Nil
Scope 2	Nil
Scope 3	89,733 tCO_2e
Weighted average carbon intensity (tCO_2e/£m)	280 tCO_2e

PAI indicators – Mandatory

PAI indicators – Voluntary

Other metrics and targets

Our specific climate and environment related metrics and targets, as set out in this report have been made considering the TCFD recommendations and are set out below:

METRIC	Current Year	Previous Year	% PORTFOLIO REPORTING	PAI?	TARGETS
Carbon Reduction Initiatives	**76%**	83%	100%	M	**Net zero targets:**[1] 50% Portfolio coverage; 90% Engagement threshold by 2030
Water Reduction Initiatives	**88%**	92%	100%	V	**For portfolio companies where we have operational control:**[2] 100% of portfolio companies with material water and consumption to have reduction initiatives in place by 2025
Waste Reduction Initiatives	**87%**	92%	100%		
Positive Biodiversity Impacts	**76%**	83%	100%		
Climate change risk register and Board meetings	**83%**	91%	100%		
Total Attributable GHG Emissions (Scopes 1, 2 and 3)	**89,733 tCO_2e**	146,190 tCO_2e	100%[3]	M	90% of emissions to be subject to direct or collective engagement and stewardship actions by 2030

1 A more detailed explanation of HICL's net zero targets and methodology can be found on pages 15-18
2 Note this target relates to portfolio companies where we have operational control in relation to setting and implementing water and waste reduction initiatives. Where we do not have operational control (such as PPP/PFI projects), we will still engage on these initiatives
3 100% of HICL's portfolio by valuation has emissions data reflected in the Total GHG Emissions calculations. For more information on HICL's methodology for estimating and reporting GHG emissions, please see pages 22-23

Net zero

Currently, 25% of HICL's portfolio by value is aligning, aligned to or at net zero. This represents Affinity Water, HS1, XLT, TNT and HICL's OFTO projects (Burbo Bank, Galloper, Hornsea II, Race Bank and Walney Extension). These assets either inherently outperform the required decarbonisation trajectory for their sector or have put in place science-based net zero targets.

As set out in this report, the Company has set interim targets relating to net zero:

Portfolio Coverage: 50% of HICL's portfolio to be net zero, aligned to net zero, or aligning to net zero by 2030

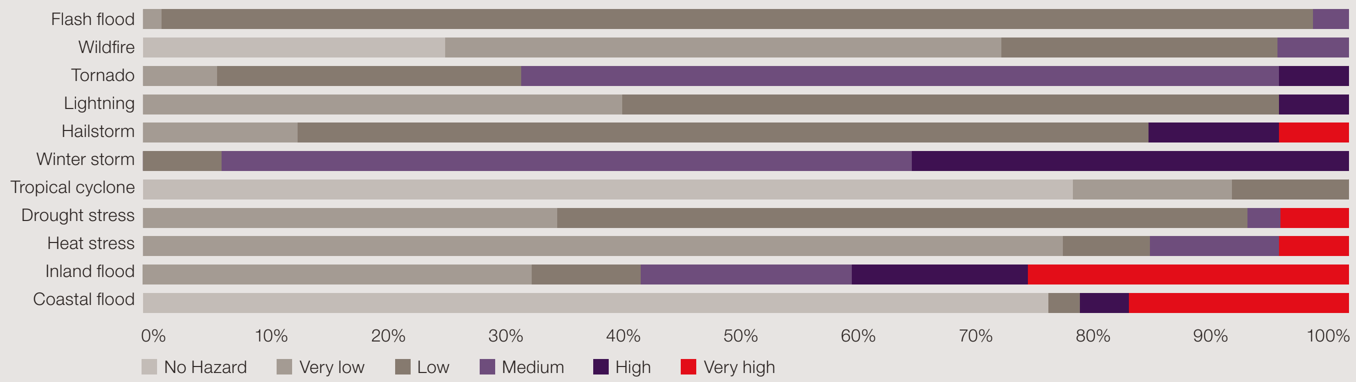
Engagement Threshold: 90% of all portfolio company emissions to be subject to direct or collective engagement and stewardship actions by 2030

The Company commits to reviewing these targets every five years at a minimum.

As of 31 March 2024, 26% of the portfolio is currently invested in climate solutions. While the Company anticipates that this will grow over time and commits to maintaining transparency on the percentage of the portfolio invested in climate solutions, the Net Zero Investment Framework for Infrastructure recognises the difficulty in setting a Climate Solutions target for funds of HICL's nature. The Company is therefore not setting a formal target at this time.

The chart below sets out the portfolio exposure (by percentage of Directors' valuation as at 31 March 2024 excluding A13 senior bonds) to physical climate risks based on current climate conditions, without mitigation:

Portfolio exposure (by percentage of Directors' valuation as at 31 March 2024 excluding A13 senior bonds)



The table below sets out the 11 TCFD recommendations, and where the related information can be found.

Recommendation	Recommended Disclosure	Pages
Governance	– Describe the board's oversight of climate-related risks and opportunities. – Describe management's role in assessing and managing climate-related risks and opportunities.	Page 39 Pages 53-54, 72 and 83-84 of HICL's 2024 Annual Report
Strategy	– Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. – Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. – Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Pages 51-52
Risk Management	– Describe the organisation's processes for identifying and assessing climate-related risks. – Describe the organisation's processes for managing climate-related risks. – Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Page 53 Pages 53-54, 72 and 83-84 of HICL's 2024 Annual Report
Metrics and Targets	– Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. – Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. – Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Pages 12 and 13

Glossary

CEO	Chief Executive Officer
ESG	Environmental, Social and Governance
EU	European Union
EU SFDR	European Union Sustainable Finance Disclosures Regulations
EU Sustainable Corporate Governance Directive	Full title: Directive on Corporate Sustainability Due Diligence, this EU law will mandate companies of a certain size: to carry out measures such as integrating due diligence into their corporate governance structures; to identify actual or potential adverse human rights and environmental impacts; and put measures in place to prevent or mitigate said potential adverse effects
EU Taxonomy	This is a classification system established by the EU to clarify which investments are environmentally sustainable
GHG	Greenhouse gas
HICL	HICL Infrastructure PLC, a listed fund managed by InfraRed
InfraRed	InfraRed Capital Partners Limited
ISSB	International Sustainability Standards Board - InfraRed is tracking the developments of ISSB, a global framework that is expected to consolidate sustainability-related disclosures in the coming years
Net zero	Net zero refers to negating the amount of GHG produced by activities, achieved by reducing emissions as far as financially and technologically possible, and subsequently implementing methods of absorbing carbon dioxide from the atmosphere
Net Zero Asset Managers initiative	An initiative of an international group of 315 asset managers, representing over US$57tn AUM committed to supporting the goal of net zero greenhouse gas emissions by 2050
NHS	National Health Service, the publicly funded healthcare system in the UK
NZIF	Net zero Investment Framework which InfraRed is aligned to as one of over 315 asset managers committed to reaching net zero across the entire portfolio by or before 2050
OECD Guidelines for Multinational Enterprises	These are recommendations addressed by governments to multinational enterprises. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting
PAI	Principal Adverse Impact, a set of environmental and social KPIs mandated by EU SFDR
PCAF	Partnership for Carbon Accounting Financials is a framework which enables financial institutions to assess and disclose greenhouse gas emissions of loans and investments
PFI	Private Finance Initiative – a term for PPPs used primarily in the UK and Australia
PPP	Public private partnerships involve collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects
PRI	Principles for Responsible Investment, a framework to communicate how ESG issues are incorporated into investment practice
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 is health and safety law in the UK. It requires companies and all those deemed 'responsible persons' to both report and maintain records of any workplace accidents or work-related injury
Scope 1 emissions	These are direct GHG emissions that occur from sources that are controlled or owned by an organisation (e.g. emissions associated with fuel combustion in boilers, furnaces, vehicles)
Scope 2 emissions	These are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling
Scope 3 emissions	These are all remaining indirect emissions resulting from an organisation's value chain activities (e.g. emissions of the supply chain)
SDG	Sustainable Development Goals
SDR	UK Sustainable Disclosure Requirements – InfraRed continue to track SDR's timeline and expected requirements
TCFD	Task Force on Climate-related Financial Disclosures, HICL has been voluntarily reporting under TCFD since early 2020 ahead of this becoming mandatory for listed funds in 2021
TNFD	Taskforce on Nature-related Financial Disclosures, InfraRed is tracking the TNFD framework releases and is currently working to develop a strategy in order to more effectively measure and reduce our impacts on biodiversity
UK	United Kingdom
UN	United Nations
UNGC principles	The UN Global Compact is a call to companies to align their strategies and operations with ten universal principles related to human rights, labour, environment and anti-corruption, and take actions that advance societal goals and the implementation of the SDGs

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