



# **Environmental, Social, and Governance (ESG) Policy**

## **Everbright Infrastructure Investment Fund**

## **About China Everbright Limited**

China Everbright Limited (CEL or the “Company”) is a leading alternative asset management company in China listed in Hong Kong. Through private equity, venture capital, industrial funds, mezzanine funds, funds of funds and secondary market funds, CEL cultivates a number of high-growth potential enterprises together with its investors. As a responsible investment institution, CEL maintains an excellent ESG track record and has always been dedicated to advancing the ESG performance. In environmental protection and low carbon sectors, CEL investments include Goldwind Science & Technology, CECEP Wind-power Corporation and BCCY Environmental Energy, which generate abundant returns for the shareholders and investors while reaping enormous environmental and social benefits.

## **CEL’s ESG Governance and Practice**

CEL has established the ESG committee under the Board of Directors, Carbon Neutrality and Green Sustainable Development Group and Special ESG Project Team to ensure the integration of ESG into the company’s investment decision-making and implementation process.

CEL has been publishing annual Environmental, Social, and Governance (ESG) Report since 2016, and issued Responsible Investment Guidelines, ESG Risk Management Statement, Employee Diversity Statement, Staff Development and Training Statement, Data Security and Privacy Statement together to become the Company’s ESG policy framework. As an example, as early as 2008, CEL established the China Everbright Charitable Foundation, a statutory charitable organization, to promote community development projects, mostly focus on ESG themes. In recognition of its contribution to the community and well performed corporate social responsibility, CEL has been awarded with “Caring Company” and “Caring Organization” for many years since 2008.

## **About the Fund**

Everbright Overseas Infrastructure Investment Fund (OIIF or the “Fund”) is a private equity fund managed by China Everbright Investment Management Limited, an indirect wholly owned subsidiary of CEL. The Fund invests in operating infrastructure assets located predominantly in Europe and Asia. In alignment with CEL’s ESG strategy, the Fund integrates ESG considerations into its investment process to facilitate sustainable value creation and positive impacts in line with this ESG Policy.

## **About the Policy**

This document sets out the management framework for the Environmental, Social, and Governance (ESG) Policy applicable to all investments of the Fund. In the case of any conflict between the ESG Policy and the Fund’s Limited Partnership Agreement (LPA), the LPA shall prevail.

The ESG Policy is to ensure that the Fund takes ESG factors into account throughout all the

stages of the investment process to provide guidance on the implementation of responsible investment, to address interests of the Fund's key stakeholders, including the Limited Partners (LPs), communities that may be affected, and investees, and to align investment decisions with selected United Nations Sustainable Development Goals (UN SDGs), Paris Agreement objectives and China's Carbon Peak and Neutrality Targets, as well as other sustainable goals relevant in the Fund's operating environment.

The ESG Policy is established in reference to the UN-supported Principles for Responsible Investment (PRI), IFC Performance Standards on Environmental and Social Sustainability, Green Investment Principles and Environmental and Social Framework of Asian Infrastructure Investment Bank (AIIB).

The Policy here tends to address interests of the Fund's key stakeholders, including the Limited Partners (LPs), communities that may be affected, and investees, while taking into account of environmental and social considerations during the investment process.

The ESG Policy will be reviewed from time to time to assure it remains to be concurrent to the latest requirement in the relevant regime. The Policy will be communicated to every person working in the Fund. This ESG Policy Version 1 is as of May 2022. Next revision is scheduled within next 12 months from Version 1.

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## **I ESG Policy**

### **1. Objective**

The Policy aims to incorporating material ESG considerations into investment decisions with the objective of:

- integrating sustainability elements into the Fund's investment process; and
- improving the long-term financial outcomes with ESG considerations, consistent with our LPs and sponsors' requirement.

Infrastructure projects present environmental and social risks principally associated with safety management, community health and safety, biodiversity impacts and labour management. It is important for infrastructure projects to align with sustainability goals for its long term nature. Put it another way, the sustainability risk such as reputational damage, loss of business revenue or other losses due to the asset's impact on the environment, employees or local communities is one of the essential business risks embedded in the infrastructure investments, that the Fund has to manage it well in order to deliver a sustained and enhanced financial return to investors. In the Fund's view, well managed ESG risk and opportunities means well managed investment returns to a large extent.

As a responsible investor in infrastructure investment, the Fund's mission is to build a better business for the communities in the region and around the world, and ESG integration serves not only as our goals but also as our powerful tools. Through partnership with the Fund's LPs, management teams in the project companies, business partners, communities, and critical stake holders, the Fund's mission can be achieved.

### **2. ESG Policy**

The Fund commits to integrate ESG Policy into its investment decisions, become an active owner, improve the sustainability of investees, and actively work with international and domestic institutions for responsible investment to promote the industry's recognition of the principles of responsible investment.

#### **2.1 Environmental**

The environmental issues here include impacts of business activities on climate change, natural resources, and any other changes to the environment. From this perspective, the Fund aims to:

- enhance the environmental management capacity of the companies and projects which the Fund invests in;
- reduce adverse impacts and enhance positive effects on the environment, as relevant and appropriate, from the companies and projects which the Fund invests in; and

- require the companies and projects which the Fund invests in to take actions on climate resilience.

## **2.2 Social**

The social issues here refer to companies/projects' responsibilities for employees and impacts on the community where the company/project operates, for instance, working conditions, labor rights, community health and safety. From this perspective, the Fund aims to:

- require the companies and projects which the Fund invests in to treat all their employees and contractors fairly and to respect their dignity, well-being and diversity, guarantee non-harassment and discrimination in all ways ;
- require the companies and projects which the Fund invests in to work towards full compliance with local labor laws and regulations, International Labor Organization (ILO) Fundamental Conventions ratified by the host country, and with the UN Universal Declaration of Human Rights;
- attain safe and healthy working conditions for employees and contractors of the companies and projects which the Fund invests in; and
- safeguard the health and safety of affected communities by the companies and projects which the Fund invests in.

## **2.3 Governance**

The governance here refers to the control mechanism in relation to bribery and corruption, tax, and other integrity issues of companies/projects. From this perspective, the Fund aims to:

- ensure that the Fund, and the companies and projects which the Fund invests in, exhibit honesty, integrity, fairness, diligence and respect in all business activities;
- enhance the good reputation of the Fund; and
- promote international best practices in relation to corporate governance in the companies and projects which the Fund invests in.

## **2.4 Supply Chain**

The Fund will advise all suppliers and contractors of the companies and projects which the Fund invests in, on the importance of implementing appropriate management measures to identify and address issues related to environmental and social provisions of the ESMS, including labor and working conditions and

health and safety matters. The Fund's ESMS compliance is an essential part of the contract documents used in the companies and projects. The companies and projects will also apply its ESMS to its suppliers. For renewable solar and wind investments, representations and warranties on labor and working conditions are to be provided by contractors and suppliers to companies and projects, and will be incorporated into agreements and contracts.

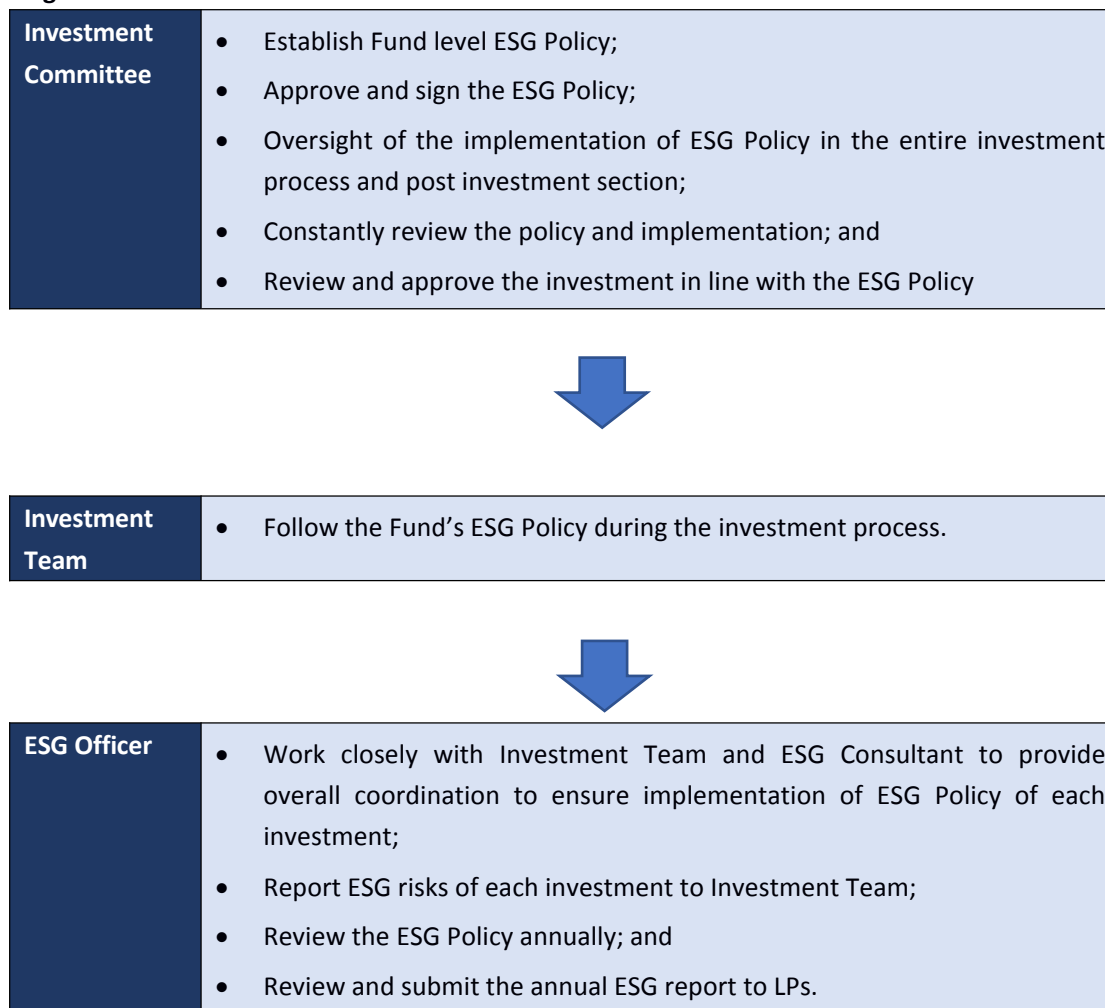
The ESG Policy requires the consideration of ESG compliance in the host countries of investment. When host country regulations differ from those presented in the ESG Policy, the portfolio companies/projects are expected to follow the regulations of the host country and strive to follow best ESG practice where applicable, and the stricter one will apply.



## II Roles and Responsibilities

The Investment Committee of the Fund assumes the ultimate responsibilities for dealing with the ESG investment related issues of the Fund, while an assigned personnel of the Fund will assume the role of ESG officer and will ensure the Fund's operation are in line with the ESG Policy and responsible for the implementation of ESG policy in the investment process. The general process and key roles and responsibilities are described in Figure 1.

**Figure 1: ESG Governance Structure**



### 1. ESG Officer

The detailed responsibilities of the ESG Officer are to:

- Work closely with Investment Team to provide overall coordination to ensure each investment's compliance of the ESG Policy;
- Assume responsibility for coordinating all ESG matters and ensure resources and budgets are made available for ESG management;

- Review and sign the Fund's Annual ESG Report to LPs;
- Conduct Exclusion List screening, initial ESG risk review and categorization for all potential investments;
- Conduct desktop review and potential site visit for an investment falling in ES Category B and Category C;
- Evaluate the necessity of external ESG consultant for an investment falling in ES category A and category B;
- Select, notify and coordinate the appropriate ESG consultant for ESG due diligence (ESG DD) and related services;
- Notify the senior management of major incidents or complaints of the portfolio companies and coordinate the Fund's response;
- Review the ESG Policy on an annual basis to determine performance and maintain relevance and suitability for the investments made by the Fund. Feedback from stakeholders (Limited Partners), portfolio companies, Investment Team and ESG Consultants will be reviewed to ensure that the ESG Policy is an integral part of the investment management process;
- Communicate to the portfolio companies about any data deficiencies and/or supplemental actions;
- Organize annual Fund-wide training for Fund employees on the ESG Policy and ESG management;
- Call for Fund-wide meetings to discuss any policy or portfolio companies related ESG issues; and
- Liaise with the senior management and Investment Team during the investment process and help communicate ESG DD findings to the Investment Committee.

## 2. ESG Consultant

A selection of the approved ESG Consultants will be requested to respond to ESG DD Terms of Reference (see ***Toolkit Annex [2d]***) related to specific investments. The ESG Officer will be responsible for selecting and notifying the ESG consultant.

ESG Consultant(s) may also be retained to conduct site visits and prepare DD reports as required by the Terms of Reference, which could include monitoring Action Plans, conformance with ESG provisions and/or overall investment performance. Consultants may also be engaged to provide input to Annual ESG Reports based on documentation reviews and site visits.

### **3. Investment Committee**

The Investment Committee makes sure that the ESG Policy is properly developed and implemented in the whole process of investment, while granting the investment approval and providing final decision-making recommendations submitted to the Board of General Partner. To fulfill the ESG responsibilities, the Investment Committee should:

- Lead the efforts in developing ESG Policy;
- Conduct annual review on the ESG Policy with ESG Officer;
- Review the material ESG issues along with financial considerations submitted in the investment proposals;
- Make sure that all material ESG issues are resolved with an actionable plan before granting the investment approval;
- Incorporate ESG-related analysis into the final decision-making recommendations submitted to the Board of General Partner; and
- Lead the ESG information disclosure and ensures sufficient communication with key stakeholders about ESG practices.

### **4. Investment Team**

The Investment Team plays a key role in managing the relationship with the potential target companies during the investment process and is responsible for the integration of ESG considerations into each stage of the investment process. To fulfill its ESG responsibilities, the Investment Team should:

- Request sufficient budget to conduct adequate ESG DD.
- Notify the prospective target companies of the Fund's ESG Policy;
- Support the ESG Officer and ESG Consultant in conducting ESG DD;
- Ensure that all ESG issues identified during due diligence process are effectively communicated to the Investment Committee;
- Support the ESG Officer to monitor and instruct the target companies to meet relevant ESG covenants;
- Support the implementation of the Action Plan; and
- Assist the ESG Officer in collecting the relevant data required for ongoing monitoring of the portfolio company.

### **III Process and Implementation**

The Fund incorporates ESG management across the whole investment process, from initial screening to exit. The figure below shows relevant ESG requirements in each stage of the Fund's investment process.

**Figure 2: ESG Integration in the Investment Process**



1.

### Initial Screening

Any of the following factors discovered during any stage of the investment will automatically end a potential deal:

1. Projects in de facto government;
2. Projects in territorial disputed area;

3. Projects in riparian-international waterway; and
4. Projects involved in pay/import to a party which is prohibited by a UN Security Council Measure<sup>1</sup>.

### 1.1 Exclusion List

The Exclusion List identifies sectors, businesses or activities which the Fund will not invest in since they are assessed to be inherently unsustainable and/or not in line with the ESG Policy of the Fund and LPs.

The Fund will not knowingly finance projects that involve the following business activities:

- i. Forced labour<sup>2</sup> or harmful or exploitative forms of child labour;<sup>3</sup>
- ii. The production of, or trade in, any product or activity deemed illegal under national laws or regulations of the country in which the Project is located, or international conventions and agreements, or subject to international phase out or bans, such as:
  - Production of, or trade in, products containing polychlorinated biphenyl (PCBs).<sup>4</sup>
  - Production of, or trade in, pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase outs or bans (Rotterdam Convention, Stockholm Convention).<sup>5</sup>
  - Production of, or trade in, ozone depleting substances subject to international phase out (Montreal Protocol).<sup>6</sup>
- iii. Trade in wildlife or production of, or trade in, wildlife products regulated under the

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<sup>1</sup> <https://www.un.org/securitycouncil/sanctions/information>

<sup>2</sup> Forced labor means any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty (including any kind of forced or compulsory labor, such as indentured labor, bonded labor or similar labor-contracting arrangements, or labor by trafficked persons).

<sup>3</sup> For purposes of this List, harmful or exploitative forms of child labor means the employment of children under the age of 18 for work which by its nature or the circumstances in which it is carried out is likely to jeopardize their health, safety or morals. However, if the laws or regulations of the country in which the Project is located provide, in conformity with the International Labour Organization's Minimum Age Convention, 1973, that children at least 16 years of age may be employed for such work on condition that their health, safety and morals are fully protected and that they have received adequate specific instruction or vocational training in the relevant branch of activity, then child labor means employment of children for work that does not comply with these laws and regulations.

<sup>4</sup> PCBs: Polychlorinated biphenyls are a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950 to 1985.

<sup>5</sup> United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organization Recommended Classification of Pesticides by Hazard. A list of pharmaceutical products subject to phase outs or bans is available at [https://www.who.int/medicines/areas/quality\\_safety/safety\\_efficacy/pharm\\_restrictions/en/](https://www.who.int/medicines/areas/quality_safety/safety_efficacy/pharm_restrictions/en/). A list of pesticides, herbicides and other hazardous substances subject to phase outs or bans is available at <http://www.pic.int/TheConvention/Chemicals/AnnexIIIChecklist/tabid/1132/language/en-US/Default.aspx>

<sup>6</sup> Ozone Depleting Substances (ODS): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized "ozone holes." The Montreal Protocol on Substances that Deplete the Ozone Layer lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents and fire protection agents, together with details of signatory countries and phase out target dates, is available from the United Nations Environment Programme, <https://ozone.unep.org/treaties/montreal-protocol>

Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).<sup>7</sup>

- iv. Trans-boundary movements of waste prohibited under international law (Basel Convention).<sup>8</sup>
- v. Production of, or trade in, weapons and munitions, including paramilitary materials.
- vi. Production of, or trade in, alcoholic beverages, excluding beer and wine.<sup>9</sup>
- vii. Production of, or trade in, tobacco.<sup>10</sup>
- viii. Gambling, casinos and equivalent enterprises.<sup>11</sup>
- ix. Production of, trade in, or use of asbestos fibers, whether or not bonded.<sup>12</sup>
- x. Activities prohibited by legislation of the country in which the Project is located or by international conventions relating to the protection of biodiversity resources or cultural resources, such as, Bonn Convention, Ramsar Convention, World Heritage Convention and Convention on Biological Diversity.<sup>13</sup>
- xi. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.
- xii. Production or trade in wood or other forestry products other than from sustainably managed forests.
- xiii. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.
- xiv. Shipment of oil or other hazardous substances in tankers that do not comply with IMO requirements (IMO, MARPOL, SOLAS and Paris MOU).<sup>14</sup>

In addition, the Fund will not consider potential investments in coal-fired power plants or which are functionally related to coal, i.e. dedicated electricity transmission lines to coal-fired power plants, as well as roads, railways and/or ports that aim to

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7 The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). A list of CITES listed species is available from the CITES secretariat, <https://www.cites.org/eng/disc/species.php>

8 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see <http://www.basel.int>.

9 This does not apply to Clients who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to the entity's primary operations.

10 This does not apply to Clients who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to the entity's primary operations.

11 This does not apply to Clients who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to the entity's primary operations.

12 In special circumstances, if necessary to enable a Client to transition from the use of bonded asbestos to alternative materials, the Bank may agree with the Client on a reasonable transition period, provided that the asbestos content of the materials being used is less than 20 percent. Projects involving disposal of asbestos are not prohibited, provided a suitable asbestos management plan is adopted for such disposal.

13 Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention) - <http://www.cms.int/>; Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention) - <http://www.ramsar.org/>; Convention Concerning the Protection of the World Cultural and Natural Heritage - <https://whc.unesco.org/en/convention/>; Convention on Biological Diversity - <https://www.cbd.int/>.

14 Non-compliance with International Maritime Organisation (IMO) requirements: tankers that do not have all required International Convention for the Prevention of Pollution from Ships (MARPOL) or International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation, International Safety Management Code compliance), tankers banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU), and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used. <http://www.imo.org/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Prevention-of-Pollution-from-Ships-%28MARPOL%29.aspx>.

service coal-fired power plants and coal mining exclusively.

## 1.2 Categorization

The ESG Officer will primarily categorize the prospective investment into Category A, B or C (see Table 1 below), based on information obtained from Investment Team in order to differentiate the level of potential E&S risk of the prospective target companies.

Specifically:

- Investment Team shall provide ESG Officer with essential information for prospective investment categorization and screening based on ESG Risk Screening Tool (see ***Toolkit Annex [1a]***);
- ESG Officer shall conduct E&S categorization in accordance with the standards set forth in the ESG Risk Screening Tool and shall inform Investment Team of the categorization and outcomes of the screening results;
- If the prospective investment has been categorized as higher risk activities (i.e. “Category A” or selected “Category B”), an ESG DD with Environmental and Social Action Plan with regard to the investment will be prepared by 3rd party external ESG Consultant.

The ESG Risk Screening Tool typically work by asking a series of questions that point to whether the business activities are associated with high (A and selected B), medium (B) or low (C) ESG impact and/or risks. Depending on how the questions are answered, the tool will determine the environmental and social risk category of the investee.

The tool is constructed to both allow the user to obtain a risk categorization, but also identify where the potential impacts/risks may lie. It takes into consideration:

- Target companies’ sector and activities (e. g. consumption of resources, use of hazardous materials, effluents, emissions, wastes, low wage industries, hazardous working conditions etc.);
- Location (site and potential impacts of operations on sensitive areas including impacts on biodiversity etc.);
- Impacts within the supply chain (immediate and important suppliers);
- Impacts on land acquisition and involuntary resettlement;
- Presence of Indigenous People;



- Potential of sexual harassment;
- Environmental risks to the business and its supply chain such as climate change (i.e. physical and transitional risks), resource constraints;
- Presence of certain risk groups (e.g. temporary workers, migrants, minors, women, disabled persons); and
- Affected communities (e.g. physical or economic displacement, impacts on social and economic infrastructure, community health and safety, vulnerable groups).

**Table 1: ESG Categorization:**

Category	Description of Category
<b>Category A:</b>	A Project is categorized A when it is likely to have significant adverse environmental and social impacts that are irreversible, cumulative, diverse or unprecedented. These impacts may affect an area larger than the sites or facilities subject to physical works and may be temporary or permanent in nature.
<b>Category B</b>	A Project is categorized B when it has a limited number of potentially adverse environmental and social impacts; the impacts are not unprecedented; few if any of them are irreversible or cumulative; they are limited to the Project area; and can be successfully managed using good practice in an operational setting. If it is expected that a Category B Project has a single significant adverse environmental and social impact and risk, the Fund considers this Project as Category B project with substantial E&S risks (or selected Category B).
<b>Category C</b>	A Project is categorized C when it is likely to have minimal or no adverse environmental and social impacts.

Higher Risk Investments include all Category A and selected Category B investments that involve: (i) Land Acquisition and Involuntary Resettlement (as defined in AIIB ESS 2) (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups, (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and cultural resources, (iv) significant retrenchment of more than 20% of direct employees and recurrent contractors (iv) significant occupational health and safety risks.

## 2. Due Diligence

The Fund performs due diligence to evaluate target companies/projects through analysis and assessment of ESG compliance, risks, value creation opportunities, and

impacts.

- For all three Categories, the Fund requires target companies and projects in compliance with local and regional laws, regulations and permits that pertain to ESG issues. For High Risk Investment (Category A and selected Category B) , the Fund conducts a comprehensive ESG DD by commission external ESG consultants.
- For Medium Risk (lower risk Category B) companies/projects, the Fund applies a limited or focused analysis of ESG risks by desktop review and site visit conducted by ESG officer to assess relevant ESG impacts. If the analysis is deemed by the Investment Committee or LPs to be not enough to cover all material ESG issues related to the target companies/projects, an ESG DD by external consultants will be initiated for further analysis.
- For Low Risk (Category C) companies/projects, the Fund applies a focused analysis of ESG risks by desktop review to assess relevant ESG impacts, when such analysis is deemed by the Investment Committee to be necessary, in addition to the standard requirements for ESG information to be included in the investment proposals.
- Desktop Review is conducted based on ***Toolkit Annex [1a-3 Performance Assessment]***. If necessary, obtain visual observations of subject activities and operations along with areas and locations to confirm the Desktop Review and compliance with relevant E&S national laws and regulations.

The ESG DD should aim to address the following:

- The findings of the ESG risk rating and ESG assessments with a focus on the material risks, including those with the potential to impact on Fund's and its investors' reputation.
- Risks that can have a direct impact on the financial model.
- A summary of the target company's current commitment and capacity to manage ESG risks and the gap between the company's performance and Fund's ESG standards and requirements.
- The identification of any ESG risks which may have an impact on the decision whether to invest or not and/or price.
- The identification of potential E&S risks and impacts especially on the topics of (i) land acquisition and involuntary resettlement, (ii) indigenous peoples, (iii) climate transition and physical risks and (iv) sexual harassment.
- The identification of the ESG improvements that can add value to the business.

- ESG improvements that need to be made during the investment period, the actions required to realize these, timeframes and costs.
- The identification of KPIs to track ESG improvements.
- Monitoring requirements and recommendations on engagement options with the investee company during the course of the investment period, to influence and bring about improvements.

The analyses and findings of the ESG due diligence and assessment are summarized together with other investment analysis in the investment proposal prepared for investment decision making.

### **3. Investment Decision**

The Investment Team and ESG Officer shall carefully review the desktop review result or ESG DD Report and take into account the proposed action plans to grant the approval to any transaction. ESG considerations are incorporated in the decision-making process:

- to assess whether the investment contributes to the achievement of sustainable goals addressed by the ESG Policy including the selected UN SDGs;
- to ensure that key ESG risks are factored into the decision on whether to invest and at what price;
- to ensure that those opportunities that add value to a business from the ESG perspectives are understood and captured;
- to highlight actions which need to be taken for the duration of the investment and the corresponding timeframe and costs involved; and
- to vote in favor of the companies/projects that exhibit to have better ESG performance and potentials to improve, in case that two or more target companies/projects present the same or similar forecasted financial returns.

The Investment Committee shall not approve any investment in any company:

- Where ESG covenants and ESG risks identified during the ESG DD are not proportionate;
- Where any person appearing on the any Sanction List at the time of the investment decision is a director or officer of, or has influence on, the target company and;
- If the target company is not meeting Level 1 in the Corporate Governance

Progression Matrix (see **Toolkit Annex 2b**) and the investment agreement does not provide adequate assurance that the target company can be reasonably expected to meet Level 1 requirement following the Fund's investment.

#### **4. Investment Execution**

To execute the approved investment, the Fund negotiates and signs the Investment Agreement with the target company/project.

- The Fund negotiates with the target company/project on its ongoing ESG management during the investment duration as follows:
  - The company/project's ESG expectations, targets, and/or commitments; and
  - Ongoing improvements of the company/project's ESG risk management system and/or ESG risk mitigation measures, which may include an ESG action plan to describe and prioritize the actions needed to address any existing gaps in the ESG risk management.
- Where applicable, the Investment Agreement contains clauses to ensure that each portfolio company/project is in compliance with the Fund's ESG Policy and fully committed to incorporate ESG practices into its activities, which cover, as appropriate:
  - ESG action plan and/or phased approach of the portfolio company/project; and
  - Contractual remedies available to the Fund in the event of failure to comply with the above provisions.

#### **5. Post Investment Monitoring**

Post-investment monitoring provides the means to regularly assess the Fund's portfolios and interests and see how they are aligned with investment strategies and targets and this ESG Policy. The frequency and intensity of ESG monitoring post investment is based on ESG desktop review, ESG DD reports (if applicable) and whether or not there have been any serious E&S incidents, including any negative feedback from the public, as determined by the ESG Officer with assistant of ESG Consultant if needed. The ESG Officer and the Investment Team will also conduct an annual review of overall portfolio to evaluate if any prior "Category C" projects should be categorized as B or even A as the project content changes due to e.g. business model may evolve and imply further ESG risks.

With respect to the ongoing Monitoring:

- The Fund actively participates in the management and operation of portfolio companies/projects to monitor and improve their ESG performance, e.g. through Board membership, according to the applicable articles in the Investment Agreement.
- During the investment duration, the ESG officer and Investment Team monitors portfolio companies and projects from an ESG perspective:
  - to examine the portfolio company/project's ongoing compliance with all relevant laws, standards and regulations relating to ESG matters as well as the principles and criteria set out in the Fund's ESG Policy;
  - to ensure timely implementation of action plans for ESG improvements;
  - to encourage the managers of portfolio companies/projects to work towards continuous improvements;
  - to ensure that any newly-emerged risks, issues or opportunities for improvement are dealt with in an appropriate manner;
  - to monitor and record serious incidents involving portfolio companies/projects that result in loss of life, serious injury, material effect on the environment, or material breach of law, and promote appropriate corrective actions;
  - to ensure that the portfolio companies/projects report to the Fund on their ESG management, performance, and/or improvements on a regular (i.e. annual) basis; and
  - to review the portfolio company/project's ESG strategies in the light of changes in regulation, markets and technology.

## **6. Exit**

At the exit, the Fund realizes the return on its investment and seeks to maximize the exit price, given the improved financial performance and sound ESG practices of portfolio companies and projects during the investment duration. ESG Officer shall prepare an ESG review memo.

## **IV Training**

The Fund realizes ESG requirements from both regulatory entities and industrial associations are continuously evolving with increasingly higher and specific standards. The Fund understands the staff has to be well positioned to manage and response to those newly introduced requirements in ESG investing. In order to ensure its staff possessing sufficient and proper knowledge and to raise their ESG awareness, the Fund encourages staff to participate in professional training activities to improve knowledge of ESG investment, including certificate-based training programs such as CFA Institute's ESG Investing courses, seminars and workshops organized by peer companies or professional associations etc. The Fund will also compile case studies in the future to measure the portfolio companies' improvements with the Fund's ESG approach.

## **V Grievance Management**

### **1. Grievance Management of the Fund**

The Fund's grievance mechanism is a citizen-driven accountability mechanism that responds to grievances and demands for redress by people affected or potentially affected by activities of portfolio companies financed by the Fund. The grievance mechanism protects complainants from retaliation and grants them confidentiality, and protects those who defend the rights of complainants to make such complaints. Complainants can remain anonymous if requested.

The contact information of the Fund are as below:

Address: 46/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong

Tel: (852) 2528 9882

Fax: (852) 2529 0177

E-mail: [media@everbright.com](mailto:media@everbright.com)

[www.everbright.com](http://www.everbright.com)

The Fund LPs' independent accounting mechanism and information regarding portfolio companies could also be found on <https://www.everbright.com/en/business/primary-market-investment/sector-focus-funds/overseas-infrastructure-fund>

The contact information allows stakeholders to give feedback or communicate regarding any ESG issues related to the Fund's investments.

ESG Officer is responsible to check the grievance collection email weekly and provide response in discussion with appropriate internal stakeholders and relevant portfolio companies within the Fund in a timely manner (i.e. within 15 working days upon receipt of the grievance).

## **2. Grievance Management of Portfolio Company**

The Fund requires each portfolio company to establish a Grievance Redress Mechanism (GRM) suitable to the nature of its business to receive and facilitate the resolution of the concerns or complaints of people who believe they have been adversely affected by the environmental or social impacts of the operation of the relevant portfolio company. The GRM should be understandable and transparent, and people affected by the portfolio company's project activities should be duly informed regarding such mechanism.

The grievance mechanism should protect complainants from retaliation and grant them confidentiality, and protect those who defend the rights of complainants to make such complaints. Complainants can remain anonymous if requested. Portfolio companies are also required to disclose LPs' independent accounting mechanism on their GRM websites.

## **VI Information Disclosure and Reporting**

### **1. Fund Disclosure and Reporting**

Disclosure is the key that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of ESG factors on a company's performance. Therefore, the Fund seeks to be transparent about its ESG considerations of private equity investments and actively engage relevant stakeholders through the following measures:

- Establish and report ESG Policy to LPs for discussion, review and monitoring;
- Upon request the Fund will deliver to the LPs the Funds' Annual Environmental, Social and Governance Report and ESG DD reports for Higher Risk Investment (all Category A and selected Category B investment) for discussion, review and monitoring. The templates for annual ESG reporting to LP and semi-annual E&S performance reporting to AIIB refer to ***Toolkit Annex 4c*** and ***Annex 4d*** respectively.
- Include ESG discussions in the relevant LP Advisory Committee meetings and annual general meetings of the Fund;
- Disclose appropriate information about the Fund's investments (name, location, contacts and industry of the portfolio company) on the website of the Fund no later than 12 months from financial close, subject to regulatory constraints and commercial sensitivity.

### **2. Portfolio Company Disclosure and Reporting**

The Fund requires portfolio companies to disclose environmental, social and governance information proportional to the environmental and social risks and impacts associated with their activities. Particularly, ESG Officer shall require the portfolio companies to publicly disclose Environmental and Social Impact Assessment and associated approval from competent authorities, if applicable. If no such document is required according to local regulations, the portfolio companies should be required to make objective information about the environmental and social impacts associated with their projects or business activities accessible to interested and affected parties in a timely and understandable manner. Disclosure of relevant E&S information (e.g., Environmental and Social Impact Assessment, Environmental and Social Management Plan, etc.) on portfolio companies' websites for 60 calendar days prior to the approval to invest by the Fund is required for all Category A subprojects of portfolio companies.



The ESG Consultants (if engaged) shall understand how the portfolio company engages with its stakeholders (including affected community, responsible governmental agencies, media, non-governmental organizations and its workforce, including employees and contractors, etc.) in relation to their business activities or projects. Consultation shall be carried out in a culturally appropriate manner and documented. If the existing consultation/ stakeholders engagement mechanism is considered insufficient based on ESG Officer's professional judgement, supplementary measures shall be proposed as part of the portfolio company's ESG Action Plan.

For the following E&S incidents at any stage of the investment, Portfolio Company must report to the Fund immediately:

- Fatal accident;
- More than 10 major injuries that need medical treatment including acute industrial toxicosis;
- More than CNY 10 million direct economic losses in relation to any environmental and social events.

LPs will be immediately notified once the Fund gets the environmental and social incident report from Portfolio Company.



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