HICL Infrastructure

Enriching lives through infrastructure

HICL Sustainability Report 2023

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 2023.

HICL is a trusted steward of essential assets and has a responsibility towards the communities that our assets serve and, in many cases, to which the assets will eventually be returned. The Board recognises that operating in a sustainable manner lies at the very heart of the Company's business model and is fundamental for the successful delivery of its investment proposition.

In recognition of the intrinsic link between HICL's approach to sustainability and its ability to deliver positive outcomes for all stakeholders, the Board has worked closely with HICL's Investment Manager, InfraRed, to evolve the Company's sustainability strategy. This is set out in detail on page 11 of this report, and is underpinned by four key priorities: Environment, Communities, People and Governance. 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.

Whilst our sustainability strategy covers the breadth of ESG, HICL's portfolio has an important social impact and is therefore particularly well positioned to deliver on this dimension. By facilitating the delivery of essential services in a socially responsible manner, the Company's underlying assets contribute to many of the UN SDGs and deliver meaningful social benefits. However, the Board and Investment Manager acknowledge that making a genuine contribution often requires going beyond the reliable provision of infrastructure.

With this in mind, InfraRed has created a dedicated Portfolio Impact team and strategy which aims to drive positive social outcomes for local communities and build relationships with HICL's stakeholders. During the year, the Portfolio Impact team surveyed 61 of the Company's clients across the healthcare and education sectors, which captured important information on the challenges they face in delivering services for end-users. In turn, this has enabled InfraRed to develop bespoke initiatives to help address these challenges, which will be rolled out across the portfolio over the coming year. Further details are provided on pages 27 to 28 of this report.

" "

> To consistently meet sustainability reporting expectations and offer accountability to investors requires continuous improvement.

As well as serving over 20 million people globally, HICL's assets also directly employ over 1,200 people and thousands more through their supply chains. In recognition of the importance of reinforcing HICL's sustainability ethos throughout its wider operation, InfraRed's investment processes have been enhanced and aligned with the United Nations Global Compact framework to better monitor standards of human rights in the supply chain.

To consistently meet sustainability reporting expectations and offer accountability to investors requires continuous improvement. Last year InfraRed launched a data collection process to ascertain the greenhouse gas emissions associated with HICL's entire portfolio, selecting 2019 as the base year to avoid Covid-19 distortion. The Company has now published its first 'live' year of portfolio emissions data, covering 100% of the portfolio and providing investors with tangible data that we can look to improve on going forward. To sit alongside this disclosure, HICL has also published new net zero targets for the portfolio, plotting the path to decarbonising the portfolio by 2050. These are set out on page 16 of this report.

HICL's portfolio-wide annual ESG survey was expanded again this year, ultimately enabling the Company to report as an Article 8 fund under the EU's Sustainable Finance Disclosures Regulation ("SFDR"). This is also reflected in HICL's sustainability metrics and targets (set out on pages 12-13) which for the first time incorporate all mandatory Principal Adverse Impact ("PAI") indicators. Improved data collection and reporting are also key components of the Company's Task Force on Climate-related Financial Disclosures ("TCFD") declarations, which HICL has now been undertaking in full for the past three years.

The Company's material progress against its sustainability objectives reflects its commitment to best practice and the importance placed on the responsible stewardship of public assets. Our ambition is to continue to progress our sustainability strategy, to actively promote improved environmental and social outcomes, and generate value for all of our stakeholders.

Mike Bane
Chair of the Board of Directors

Sustainability highlights

HICL sets interim net zero targets

- 50% of HICL's portfolio to be net zero, aligned to net zero, or aligning to net zero by 2030
- 90% of all portfolio company emissions to be subject to direct or collective engagement and stewardship actions by 2030
- Commitment to review each target every five years at a minimum

Prior year objective

InfraRed to set interim greenhouse gas reduction targets for HICL

See pages
16-19

HICL discloses Scope 1, 2 and 3 greenhouse gas emissions for its entire portfolio

- Total attributable emissions of 146,190 tCO_2e in calendar year 2022
- Enhanced data collection exercise supported by expert third-party consultant

See pages
20-21

HICL categorised as an Article 8 Financial Product under the EU SFDR

- Full compliance with level 2 disclosure requirements from 1 January 2023
- Enhanced InfraRed ESG survey enables HICL to report against all 14 mandatory Principal Adverse Impact (PAI) indicators
- Updated periodic disclosure included in HICL's 2023 Annual Report

Prior year objective

Align reporting to the final Regulatory Technical Standards (RTS) of SFDR (Level 2)

See pages
48-50

InfraRed launches Portfolio Impact strategy

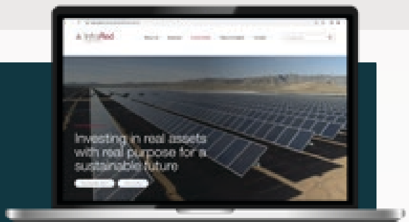
- Client Insights survey conducted across 61 of HICL's healthcare and education assets
- 100 targeted initiatives rolled out to support local communities
- ESG excellence at HICL's portfolio companies recognised through Creating Better Futures Awards

Prior year objective

InfraRed to broaden stakeholder engagement through client surveys and follow-up initiatives

See pages

27-31



InfraRed strives for best-in-class governance

- Enhanced application of InfraRed's Exclusion Policy for HICL investments using quantitative thresholds
- Monitoring of supply chains aligned with United Nations Global Compact (UNGC) framework
- Refreshed Sustainability Policy published alongside this report

Prior year objective

InfraRed to undertake a review of existing policies against external sustainability frameworks

See pages

36-40

InfraRed achieves five-star PRI rating

- Score of over 90% in both relevant modules of the PRI framework; Infrastructure and Investment & Stewardship
- 7th consecutive year that InfraRed's Infrastructure business has achieved the highest possible rating
- InfraRed has been a Principles for Responsible Investment signatory since 2011

PRI Principles for Responsible Investment

See pages

36-40

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 investment manager with over 25 years of investment experience and is currently actively managing over 230 infrastructure assets across 17 countries with US$14bn+ 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

56%

of portfolio

Connecting communities

32%

of portfolio

Sustainable modern economies

12%

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 inextricably 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 government departments to deliver many of our essential infrastructure services.

Our people

HICL indirectly employs over 1,200 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 190 people worldwide which comprises over 20 nationalities speaking 20 different languages.

Our delivery and other partners

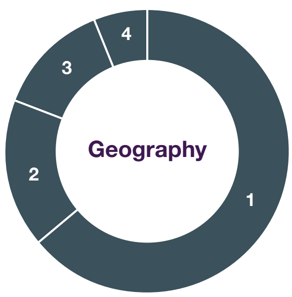
To enable high-quality infrastructure assets, we enlist the services of several businesses which include management service providers, construction companies, facilities management companies, financiers, co-shareholders and advisors.

Our shareholders

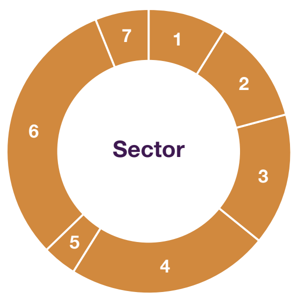
We invest in infrastructure assets using the capital provided by our investors. Our shareholders range from individuals to substantial international institutions, such as pension funds, who generate stable and long-term income responsibly and ethically for their clients.

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	17%
3	North America	13%
4	Australia/New Zealand	6%



1	Accommodation	9%
2	Education	12%
3	Electricity & Water	15%
4	Health	23%
5	Fire, Law & Order	4%
6	Transport	31%
7	Communications	6%

Our business continued

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 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.

3 GOOD HEALTH AND WELL-BEING

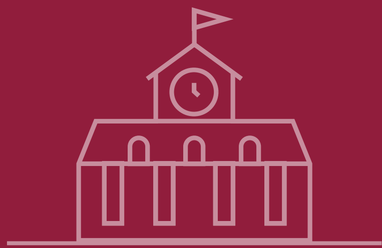
People with access to HICL's healthcare

11.9m

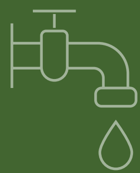
4 QUALITY EDUCATION

140k

student places across school, college and university facilities



6 CLEAN WATER AND SANITATION



People served with clean water by Affinity Water

3.6m

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

2.3m

People served by InfraRed's courts, fire stations and police stations

7 AFFORDABLE AND CLEAN ENERGY

Homes connected to renewable electricity by HICL's OFTOs

1.7m

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

>5m

Homes connected to high-speed internet by Altitude Infra

11 SUSTAINABLE CITIES AND COMMUNITIES

Accommodation places

40,000

Unique users of HICL's roads and railways

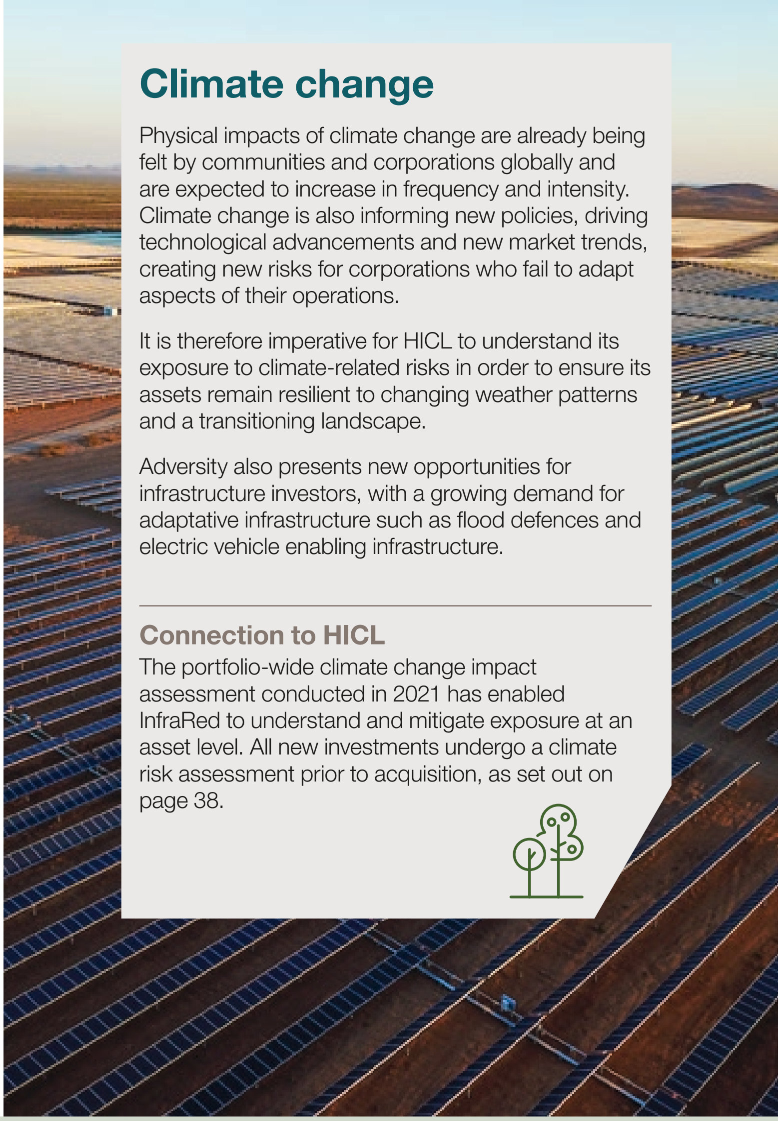
4.5m

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Global trends

Driving our approach

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



Climate change

Physical impacts of climate change are already being felt by communities and corporations globally and are expected to increase in frequency and intensity. Climate change is also informing new policies, driving technological advancements and new market trends, creating new risks for corporations who fail to adapt aspects of their operations.

It is therefore imperative for HICL to understand its exposure to climate-related risks in order to ensure its assets remain resilient to changing weather patterns and a transitioning landscape.

Adversity also presents new opportunities for infrastructure investors, with a growing demand for adaptative infrastructure such as flood defences and electric vehicle enabling infrastructure.

Connection to HICL

The portfolio-wide climate change impact assessment conducted in 2021 has enabled InfraRed to understand and mitigate exposure at an asset level. All new investments undergo a climate risk assessment prior to acquisition, as set out on page 38.

Energy transition

The transition to a low-carbon economy and the attractiveness of renewable energy are driving significant changes in the energy market. The war in Ukraine has exacerbated energy insecurity, and amplified calls for an accelerated transition. Falling prices and favourable governmental policies have catalysed the growth of renewable energy, which is expected to account for almost 90% of new generation capacity over the next five years[1].

Connection to HICL

Whilst HICL doesn't invest directly in renewable energy generation, it plays a vital role in enabling the energy transition through investment in electricity transmission networks and OFTOs. The Company's contribution to climate solutions is discussed on pages 15-19.

1 Source: International Energy Agency (IEA) report on Renewables 2022

Social mobility

As income gaps widen, there is an ever important need to address inequalities by providing equal access to essential services and removing barriers to social mobility via, for example, high-quality education, accommodation, and healthcare. As anchor institutions in their communities, schools and hospitals promote community development by providing access to resources, services and social networks that help to improve the quality of life for communities.

Connection to HICL

Through its portfolio of schools and hospitals, HICL has a unique opportunity to contribute to reducing inequalities through asset-based initiatives. Detailed case studies are provided on pages 29-31.

Supply chain

Beyond the resilience of supply chains, social aspects of supply chains are garnering greater attention, which increases exposure to risks concerning human rights and labour conditions. Despite delays in the EU Sustainable Corporate Governance directive in 2021, mandatory human rights due diligence legislation at the national levels in Germany, the Netherlands, and France, for example, are demanding greater scrutiny, transparency and action. Continued action in the US and other key markets to restrict imports from 'high-risk' areas have mandated companies to evidence credible human rights monitoring efforts up the chain.

Connection to HICL

Through the annual ESG survey, InfraRed collects important Modern Slavery Act compliance and training data, not only on its portfolio companies but also on the wider supply chain. Gaps can then be identified and addressed by dedicated asset managers. Compliance with these policies can be found on pages 33-34.

Biodiversity

Evidence increasingly shows biodiversity's critical role for stabilising ecosystems and the economy. As biodiversity declines, ecosystems become less resilient, species become endangered or extinct and the services that nature provides, such as water purification and carbon sequestration, are progressively compromised. This in turn is negatively impacting human health, food security and economic development. As investors and corporations begin to appreciate the importance of managing biodiversity risks and opportunities, biodiversity and nature loss have emerged as key focus areas within the broader ESG landscape.

Connection to HICL

Given the nature of infrastructure assets, there is a direct connection to biodiversity impacts. As part of HICL's strategy the Company is focused on mitigating any negative impacts and promoting positive contributions across the portfolio. More information is provided on page 22.

Equality

Diversity, Equity and Inclusion (DE&I) are key components in creating a more equitable and just society, as different viewpoints, personal experience and professional expertise can lead to better decisions and innovative thinking that drive success.

Inclusive workplaces and communities can help promote social cohesion, while businesses like ours can tap into a wider pool of talent and benefit from better outcomes as a result of diversity of thought.

Like clients, shareholders are now asking not just for information about DE&I targets, but hard evidence of programmes being implemented.

Connection to HICL

For insight into how HICL and InfraRed approach DE&I, please see page 33.

Our approach

HICL

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

> The stewardship of essential infrastructure assets confers an important responsibility, and significant opportunity, to improve community outcomes.

Mike Bane
Chair of the Board of Directors

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 lies at the very heart 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 20 million people have access to HICL's infrastructure; in the UK alone, HICL's assets touch the lives of one in four citizens. As a result, the Company has an exceptional opportunity to make a positive social contribution by enhancing the experience of its clients, end users and wider stakeholders.

HICL actively contributes to the United Nations ("UN") Sustainable Development Goals ("SDGs") through the delivery of reliable and resilient infrastructure that supports economic development and human wellbeing. The nature of HICL's investment proposition means the Company inherently contributes to developing industry, innovation and infrastructure (SDG 9); and building sustainable cities and communities (SDG 11).

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.

You can download the InfraRed Sustainability Report 2023 here.

> At InfraRed we take pride in our duty as custodians of assets that serve as anchor institutions in communities and provide essential services such as healthcare, transport and internet connectivity.

Werner von Guionneau
CEO, InfraRed

Our sustainability strategy

We have evolved our sustainability strategy to focus on four key priorities:

Environment

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.

Read more on page 14

Communities

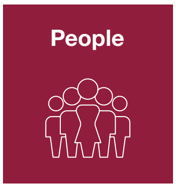
Positively impact the communities in which HICL's assets are located by actively addressing the needs of clients, end-users and other key stakeholders.

Read more on page 26

People

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

Read more on page 32



Governance

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

Read more on page 36

Sustainability metrics and targets

Reporting on sustainability in a manner that is clear and easily absorbed by investors requires continuous improvement. Two years ago, HICL published its first set of sustainability specific metrics and targets with the aim of improving the objective measurement of the Company's sustainability performance, which it expanded on in 2022. This year, InfraRed's expanded annual ESG survey has enabled the Company to increase its disclosure once again.

Further information on SFDR is set out on pages 40 and 50-52 of this report, and the PAI template is also included in HICL's 2023 Annual Report.

Notably, HICL is able to report against all 14 mandatory Principal Adverse Impact 'PAI' indicators and 7 'voluntary indicators' as set out under the EU's SFDR regime.

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	**83%[11]**	N/A[1]	90%	M	**Net zero targets:[2]** 50% Portfolio coverage 90% Engagement threshold by 2030
Portfolio companies with Water Reduction Initiatives	**92%**	88%	91%	V	**For portfolio companies where we have operational control:[3]** 100% of portfolio companies with material water consumption to have reduction initiatives in place by 2025
Portfolio companies with Waste Reduction Initiatives	**92%**	93%	90%		
Portfolio companies with Positive Biodiversity Initiatives	**83%**	55%	90%		
Portfolio companies who included and discussed climate risks and opportunities at board level	**91%**	91%	90%		
Total Attributable GHG Emissions (Scopes 1, 2 & 3) for the portfolio	**146,115 tCO_2e**	63,821 tCO_2e (2019 data)	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	**92%**	93%	90%		100% share of portfolio companies to make a voluntary charitable contribution by 2025
Portfolio clients that responded to the Client Insights Survey	**61 client responses**	17 client responses	N/A[5]		80 responses to the Client Insights Survey by 2025

1 2023 is HICL's first year of reporting Carbon Reduction Initiatives for the purpose of aligning to SFDR PAI's
2 A more detailed explanation of HICL's net zero targets and methodology can be found on pages 16-18
3 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
4 100% of HICL's portfolio by valuation has emissions data reflected in the Total GHG Emissions calculations. Of that 100%, portfolio companies representing 97% of the portfolio valuation provided some asset-related data to calculate emissions and the remaining 3% was estimated based on proxy data. For more information on HICL's methodology for estimating and reporting GHG emissions, please see pages 20-21
5 The Client Insight Survey was sent out to HICL's Education and Healthcare assets only. For more information, please see page 28

People

Read more

METRIC	Current Year	Previous Year	% PORTFOLIO REPORTING	PAI?	TARGETS[12]
Number of RIDDORs per project[13]	**0.38**	0.48	117 projects	V	1/3 of senior level roles to be held by women by 2028
Portfolio companies who completed an Independent Health and Safety audit	**96%**	89%	90%		
Gender Diversity[6] at portfolio company boards	**27%**	N/A[7]	90%	M	24% of senior[14] team members are women
Gender Pay Gap[8] at portfolio companies	**20%**	N/A[9]	23%	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:	**94%**	92%	90%	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	**96%**	99%	90%		
Whistleblowing	**98%**	96%	93%		
Cyber-security	**96%**	96%	90%		
Health and Safety	**100%**	99%	93%		
Anti-bribery and Corruption	**96%**	99%	93%		
Diversity and Inclusion	**96%**	96%	90%		
Tax	**96%**	99%	93%		
ESG	**96%**	95%	90%		
Business Continuity	**96%**	96%	90%		
Modern Slavery	**95%**	96%	93%		
Modern Slavery:[10] 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	**90%**	70%	93%	V	
Training	**90%**	79%	93%		
Audit	**93%**	71%	93%		
Portfolio companies with Active Stewardship[15]	**94%**	99%	93%		

6 For HICL, the Gender Diversity metric relates to the Board of Directors at our portfolio companies
7 Last year's reported Gender Diversity metric referred solely to InfraRed. As the current year statistic is representative of HICL only, there is not a comparable metric from the previous year
8 This metric refers solely to one asset, Affinity Water, in HICL's portfolio as it is the only asset to have 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
9 Gender Pay Gap has not been reported by HICL previously. In line with SFDR PAI, HICL is reporting this metric for the first time this year
10 HICL considers the Modern Slavery metric to line up with the PAI of Processes to approach human rights
11 All metrics, unless otherwise stated, are based on the percentage of portfolio value
12 The below targets refer directly to HICL's manager, InfraRed
13 For the definition of RIDDOR, please see the Glossary on page 51
14 Senior is defined as Managing Director and Partner levels.
15 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 imperative that we ensure that the positive social contribution of our assets does not come at the expense of the natural environment.

The 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

Environmental highlights

83%

of portfolio companies have positive biodiversity impacts

92%

of portfolio companies have Water and Waste Reduction initiatives

91%

of portfolio companies discussed and included climate change risks and opportunities at board level

146,115 tCO_2

Total Attributable GHG Emissions across HICL's portfolio

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.

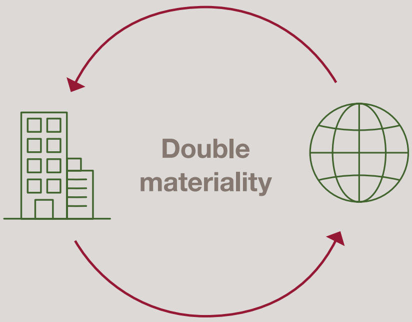
Our approach to climate change

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', a notion embedded in the EU's sustainable finance disclosure regime, in their approach towards HICL's climate change risks. According to double materiality, 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 is addressed via three key levers:

1. Investing in climate solutions[1]

A number of HICL's assets, including its fully electrified railway lines, electric rolling stock, and electricity transmission assets (including OFTOs) inherently support the transition to a lower-carbon society. Over time, the Company is likely to make further investments in these sectors and others which provide solutions to climate change.



2. Building resilience to climate change impacts

For HICL, climate change and the response to climate change are likely to impact the Company in a number of ways:

- **Physical risks**: 'acute' physical damage to the Company's infrastructure investments from variations in weather patterns and 'chronic' impacts such as rising sea levels and droughts. In 2021, InfraRed completed a comprehensive climate change risk assessment of HICL's portfolio to understand the physical risks of climate change and the corresponding measures required to adapt to changing weather patterns. This climate change risk assessment is now a requirement for all new transactions, and any findings of material risk are incorporated into financial models and the post-investment management plan.
- **Transition risks**: The accelerated transition towards a less polluting, greener world means that some sectors may need to adapt aspects of their operations. As part of its active approach to asset management, InfraRed considers policy landscapes, technological advancements and market trends in decision making to avoid carbon lock-in, ensuring that HICL's investments embrace the transition.
- **Liability risks**: There are potentially material costs associated with climate inaction – whether they are strategic costs or litigation costs owing to poor environmental management. InfraRed regularly monitors and engages HICL's portfolio companies on policies and the effective implementation of such policies to ensure responsible management at an asset level.

3. Decarbonising HICL's portfolio

The operation of our infrastructure comes with a carbon impact. In recognition of the opportunity to reduce this, HICL has pledged to decarbonise all portfolio emissions in line with net zero pathways. This means the continued monitoring and reduction of Scope 1, 2 and 3 emissions and ensuring robust governance that oversees net zero strategies. The successful decarbonisation of our portfolio will rely on the strong partnerships that InfraRed has built as an active manager with public sector clients, service delivery providers and co-shareholders

94%

of HICL assets discussed climate-related risks and opportunities at board level

96%

of HICL's assets have updated their risk register to reflect the findings of the impact assessment

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

Net zero engagement

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. In November 2022, InfraRed took the next step in its net zero pledge by publishing its 2022 Net Zero Progress Report which outlined interim 2030 targets, following the methodology set out in the Paris-aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF) for Infrastructure.[1]

Following this same approach, HICL is now in a position to disclose its own interim targets, which are outlined below and explained in detail on the following pages. The Company commits to reviewing these targets every five years at a minimum.

As set out in the following pages, several HICL assets inherently contribute to the transition to net zero. However, the Company's investment strategy is broader than climate solutions, and HICL's diversified portfolio contributes meaningfully to improved sustainability outcomes, most notably those linked to communities and society.

As of 31 March 2023, 20% 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.

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

11%

Assets on a net zero trajectory

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

1 Framework developed by the Institutional Investor Group on Climate Change (IIGCC)

1. Portfolio coverage

What is a portfolio coverage target?

Operational assets

A portfolio coverage target, 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. To be considered aligning, an asset must have short-[2] and medium-[3] term targets that are underpinned by science-based pathways for its sector; it must disclose all material scope emissions (including Scope 3) and evidence the governance of net zero plans.

The requirements of aligned status have a greater focus on implementation. The asset must have forecast emissions performance against targets set as well as a decarbonisation strategy to support the reduction projection. To be considered net zero, actual emissions must match or outperform the science-based decarbonisation pathway.

Target

50%

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

Baseline

17%

Assets on a net zero trajectory

Category	Requirement	Net zero	Aligned	Aligning
Performance and target	Current and forecast Scope 1, 2 and material Scope 3 emissions performance level (relative to target or to a net zero benchmark/pathway, or asset's science-based target, over time)	Asset with emissions intensity required by a net zero pathway and whose ongoing operational model will maintain this performance	✓	Either ✓ OR All of the below marked criteria.
Ambition	Long-term goal for the asset to be net zero emissions by 2050 or sooner		✓	✓
Disclosure	Disclosure of Scope 1 and 2 emissions, and disclosure of material Scope 3 emissions within a reasonable timeframe and in line with regulatory requirements where applicable or the PCAF[4] standard		✓	✓
Targets	Short and medium-term targets for Scope 1,2 and material Scope 3 emissions in line with science-based net zero pathway[5]. These may be absolute or intensity based		✓	✓
Decarbonisation Strategy	Development and implementation of credible decarbonisation strategy for Scope 1, 2, and material Scope 3 emissions		✓	
Governance	Governance/management responsibility for targets/ decarbonisation plan		✓	✓

Construction assets

Category	Requirement	Aligning
Design	The asset will be or is being constructed in a way that is designed such that it can be aligned to a net zero pathway, including consideration of whole lifecycle emissions to minimise embodied emissions and avoid carbon lock-in	✓
Disclosure	The emissions associated with the construction phase are disclosed	✓
Ambition	There is an ambition for the asset to be net zero by 2050 or sooner	✓
Minimise	There is a decarbonisation or management strategy to minimise emissions in the construction phase	✓
Governance	Governance/management responsibilities are in place to minimise emissions in the construction phase	✓

If in construction or development, assets can only be considered as aligning. Once operational, the asset then becomes subject to the criteria for operational assets, as outlined above.

The NZIF framework recognises the challenges of (1) limited control / influence on suppliers and contracts and (2) achieving net zero in infrastructure necessarily relies on the decarbonisation of wider sectors such as steel and cement.

These criteria therefore focus heavily on supply chain engagement and design for a net zero future.

2 3-5 years
3 10-15 years
4 Partnership for Carbon Accounting Financials (PCAF)
5 Where available, a sectoral decarbonisation approach (TPI/SBTi) or 'carbon budget' approach should be used. Minimum for other assets is a global or regional average pathway

Climate change continued

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. We are already actively engaging on a wide range of climate change aspects, such as data collection, GHG reduction initiatives and climate resilience measures.

We do this:

- Directly, through Board meetings and one-to-one meetings with clients, engaging on net zero initiatives and decarbonisation feasibility/strategy studies
- Indirectly, 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

Whilst we can evidence the number of channels through which we currently engage with our portfolio companies and clients on a regular and adhoc basis, we have not formally tracked engagement as a metric to date, hence, we have set our baseline as 0%.

12-month focus

A major focus over the year has been to formalise an engagement strategy. This has helped us to systematically influence net zero strategies, disclosure and governance at the asset level. It has also enabled us to monitor and report on our own engagement progress against our targets.

The core objectives of the strategy are to:

- Continue to proactively engage with portfolio companies to expand GHG emissions data collection and strengthen disclosure, particularly on Scope 3 emissions
- Adapt engagement approach based on the materiality of emissions and levels of operational control
- Develop a structured process to track and report on engagement levels, and periodically report on this progress

Target

90%

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

Baseline

0%

Not formally tracked as at 31 March 2023

Case study

Restore damaged peatlands in the Scottish Borders

HS1

In June 2021, HS1 launched an innovative retail sustainability campaign at St Pancras International station to restore damaged peatlands in the Scottish Borders and educate consumers on the importance of this vital ecosystem. UK peatlands store around three times more carbon than our forests do, and damaged peatlands emit a huge amount of CO_2 into the atmosphere. Reversing man-made damage is therefore vitally important for this ecosystem and our planet.

On average, every four sales at the station helped to prevent an estimated 1kg of CO_2 from being emitted thanks to the restoration work that it funded. The campaign was live until October 2022, in which time a projected 3.333 million kgs of CO_2 was prevented from entering the atmosphere. If you have shopped or dined at St Pancras International at some point over the last year, you have contributed to the success of this campaign!

3.333

million kgs of CO_2 was prevented from entering the atmosphere

Climate change continued

Emissions

Estimating and reporting our greenhouse gas ("GHG") emissions

The collection and reporting of the assets' GHG emissions is vital in providing transparent reporting for all HICL's stakeholders. Furthermore, the Company's GHG emissions data underpins HICL's net zero engagement strategy. For an asset to be aligned or aligning with net zero, it is vital to measure emissions and set reduction targets. As a result, InfraRed has prioritised asset level GHG data collection over the last 12 months. This has primarily been achieved by improving data collection methodology and subsequently implementing this methodology into the Investment Manager's annual ESG survey.

For the calendar year to 31 December 2022, 97% of portfolio companies provided responses. This is a significant increase in the response rate of 75% in the prior year, which was used to calculate the 2019 baseline emissions published in HICL's 2022 Sustainability Report. As a result, emissions for the current year can be calculated with a greater degree of confidence due to the reduced reliance on proxies. Furthermore, improved data granularity can be directly linked to efforts at the project level to reinforce the importance of collecting and reporting emissions data, led by InfraRed's Asset Management team.

GREENHOUSE GAS PROTOCOL

PCAF Partnership for Carbon Accounting Financials

Where gaps were identified in the initial data collection process, InfraRed re-engaged management teams to ensure correct data had been provided. In cases where data was not available, for example where management teams had no access to meters or utility bills, InfraRed worked with a GHG specialist consultant, Chronos, to devise proxies. These drew on external databases such as the Chartered Institution of Building Services Engineers (CIBSE) Energy Benchmarking Dashboard, which provides energy use proxies for various activities and NHS Estates Returns Information Collection, which provides data on costs, energy use and other relevant details for NHS facilities.

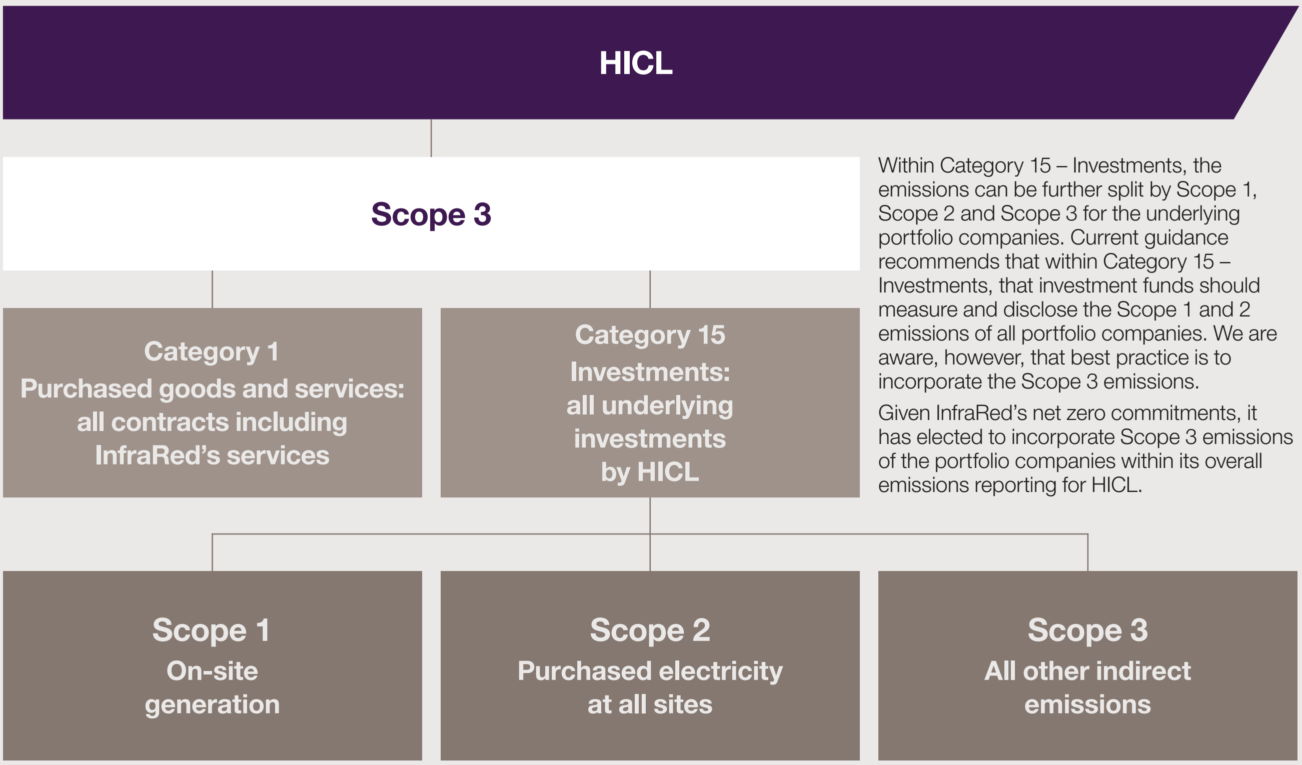
HICL has measured its Scope 1, Scope 2 and Scope 3 emissions in accordance with the GHG Protocol and the Partnership for Carbon Accounting Financials (PCAF), both of which are recognised standards for accounting on corporate emissions methodology.

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:

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

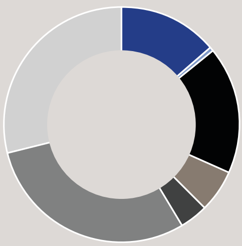
The below sets out HICL's attributable emissions for the calendar year ending 31 December 2022:

Emissions (Attributable basis)	Year ended 31 December 2022	Year ended 31 December 2019
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	75 tCO_2e	127 tCO_2e
Category 15, emissions from all operational investments	120,096 tCO_2e	127 tCO_2e
Category 15, emissions from all investments under construction	26,019 tCO_2e	28,000 tCO_2e
Total Scope 1, 2 and 3 emissions (tCO_2e)	**146,190 tCO_2e**	**63,821 tCO_2e**
Weighted average carbon intensity (tCO_2e / £m)	284 tCO_2e	–

HICL acknowledges that there has been an increase in the Company's total GHG emissions data. That rise can be, in a large part, attributed to the enhanced data collection and emissions estimation process as described on pages 20-21. In addition to those internal improvements, when the previous emissions data was collected in 2019, InfraRed's team relied more heavily on proxy data. At that time, the external databases that were the sources of this data were far less advanced and lacked the level of accuracy that can be obtained today.

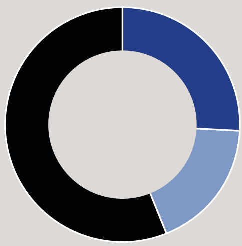
Some of our net zero engagement metrics

TOTAL EMISSIONS ACROSS THE HICL PORTFOLIO, SPLIT BY SECTOR



	%
Accommodation	13.7
Communications	0.5
Education	17.5
Electricity & Water	5.8
Fire, Law & Order	4.0
Health	29.8
Transport	28.7

TOTAL EMISSIONS ACROSS THE HICL PORTFOLIO, SPLIT BY SCOPE



	%
Scope 1 GHG Emissions	26
Scope 2 GHG Emissions	18
Scope 3 GHG Emissions	56

1 Outstanding investment is equivalent to the current value of HICL's equity investment in the portfolio company.

Biodiversity

Minimise environmental impacts, pollution and loss of flora and fauna

The topic of biodiversity is becoming increasingly important in the field of environmental preservation, with society acknowledging the vital role it plays in supporting life on Earth. Although minimising biodiversity loss presents challenges, HICL prioritises the ongoing management of biodiversity risks at a portfolio company level. HICL's asset biodiversity performance is tracked through the Manager's ESG survey[1] which provides valuable insights into initiatives that can be implemented, and also enables the reporting of a specific PAI linked to biodiversity.

The initiatives designed by InfraRed and HICL's portfolio companies are often bespoke and have the greatest impact at a specific geographic location or setting, as demonstrated in the case studies here and on the following page.

ISSB

TNFD

Case study

Team Northwood

Northwood MOD

Northwood MOD formed 'Team Northwood' to bring together key stakeholders to discuss, plan and implement effective ESG initiatives. The aim of the taskforce is to maximise efficiency and impact in work towards an environmental succession plan for future sustainability. Their ESG initiatives use available resources to serve the local community and end-users. The past year has seen a particular focus on biodiversity across four initiatives:

Worms at Work: The installation of the wormery for food waste produces high-quality fertiliser used on-site for gardening. In future, it will also be used to support vegetable growth which can then be cooked and served on-site.

Wildflower Meadows: The site has many areas with a variety of flowers, bushes, shrubs, and trees. This year, wildflower meadows were introduced. These greatly improve biodiversity, attracting insects and providing additional colours, shapes, and smells.

Beekeeping: The site now has three flourishing beehives, with volunteer beekeepers coming from different organisations within Team Northwood. These volunteers undertook beekeeping courses to understand how to manage a colony of bees and their production of wax and honey. The beekeepers harvested over 200 jars of honey which were sold, with half of the proceeds being donated to a local school.

Mindfulness Garden: In recognition of the high-pressure operations delivered by the MOD client, the project company worked with the facilities management provider to implement a space of planted flowers and bench seating for all on-site personnel to use.

1 More information on the Annual ESG survey can be found in the Governance Section, page 36

Case study

INNS OUT Scheme

Affinity Water

In 2022 Affinity Water relaunched the 'INNS OUT' scheme for a second year, as part of an ongoing commitment to protect and enhance the habitats of native wildlife on its land and across its supply area by reducing the spread and introduction of Invasive Non-Native Species (INNS). INNS can have a negative impact on the economy and wildlife habitats, threatening native species and reducing biodiversity by spreading harmful diseases, out-competing for resources, or damaging natural ecosystems.

Through the scheme, the company has engaged with 20 local community groups and organisations to help stop the spread of INNS across multiple river catchments in the supply area. The support was both 'in kind' with over 35 Affinity staff committing over 50 volunteer days towards the scheme, and financial with 16 projects receiving support totalling £65,000. The scheme demonstrated that a joint approach to working with other organisations to combine resources and expertise is key to improving the local environment. The scheme will reopen again for 2023, building on the work that has already been undertaken and expanding into new areas.

Case study

Gundolph Pond Restoration

Royal School of Military Engineering

The RSME estate includes a large pond, which is used by the British Army to undertake sea survival training. Historically, the pond has not been subject to active water management and tends to exhibit a high level of aquatic weed growth during the summer period each year. At times, this has had a detrimental impact on the training programme and the biodiversity of the natural habitat.

As a cost-effective and environmentally friendly solution to control weed growth, the project company introduced carp to the pond. Not only have the weeds become more manageable, allowing training to take place undisturbed, but the project company has also established its own angling club, which offers fishing to all personnel within its regiment. This solution has helped to enhance biodiversity, improve mental health and wellbeing for students and staff, forged new partnerships with various companies and has provided an additional community asset for locals during the summer months, all whilst having an inherent positive environmental impact.

Resources

In the case of 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[1]. 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.

HICL's metrics and targets, as set out on pages 12-13, guide the Investment Manager's focus when it comes to reducing resource consumption. This year, InfraRed has prioritised encouraging HICL's portfolio companies to reduce water consumption and the quantity of waste disposed. Consumption habits vary significantly across the portfolio, however through the ESG survey responses InfraRed can identify sector specific trends then provide support with scalable initiatives. For example, with InfraRed support, several education assets have taken a big step forward in waste reduction through their fight against single use plastics.

1 To see the metrics used in the ESG survey please see page 45

Case study

Single-use plastics initiatives

Manchester Schools and Barking & Dagenham Schools

Throughout the year, there has been a continual drive to reduce single-use plastics across HICL's portfolio. At Manchester Schools, the project company provided funding to support the schools' drive to reduce single-use plastics on-site. This was used to acquire reusable, school branded, water bottles for all staff and students as well as to install three additional water fountains across the school. Building on the success of this scheme, InfraRed has begun to apply this 'best practice' approach to other schools in the HICL portfolio. For example, a similar scheme was carried out at Barking & Dagenham Schools, where 1,500 reusable water bottles were provided to further enhance the schools' work towards reducing single-use plastics on-site. The initiative has been well received and reusable bottles have since become the norm.

1,500

reusable water bottles were provided to further enhance the schools' work towards reducing single-use plastics

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

92%
of portfolio companies gave voluntary charity contributions to environmental or social initiatives over the year

61
client responses received from the 2nd Client Insights Survey

100
community initiatives implemented across the portfolio during the period

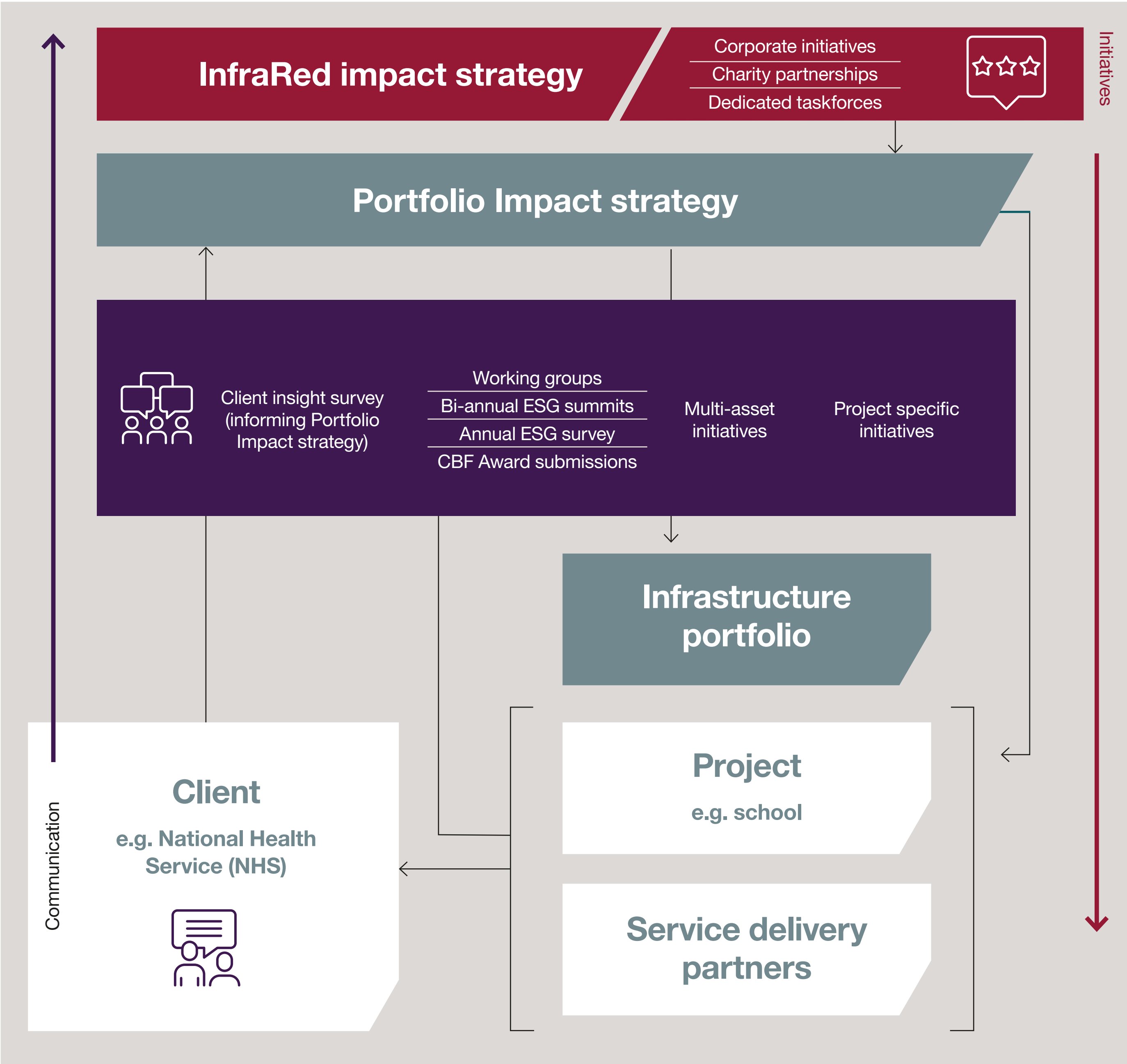
InfraRed's Portfolio Impact strategy launched

InfraRed's Portfolio Impact strategy

Around the world, millions of people use or interact with the infrastructure assets we manage.

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 projects. 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.

To help achieve this, the Investment Manager has created a Portfolio Impact strategy. The objective of InfraRed's Portfolio Impact strategy is to help drive positive social outcomes and improve the relationships between asset managers and public and private sector clients. With a better understanding of the challenges communities face through asset feedback, we can refine initiatives to address the needs of stakeholders either at a portfolio level or at project level.



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.

Following the success of the inaugural education survey in 2021, InfraRed launched the second iteration of the Client Insights survey in March 2022, which was expanded to target the healthcare and education sectors. In total 61 clients responded, more than triple the responses received in 2021. The survey was designed as a streamlined exercise made up of six questions: three focused on capturing client satisfaction with the service provision through the PPP, and three on broader challenges clients face day-to-day. InfraRed further incentivised clients by offering a £500 donation to a charity of their choice on completion of the survey. This was a key contributor to the high response rate and led to InfraRed donating over £30k to causes nominated by HICL's clients.

In general, HICL's clients indicated that they are satisfied with the service they receive through the PPP, as set out below. In individual cases where service delivery is currently falling short of expectations, InfraRed has proactively engaged with clients to discuss how this can be improved in the future.

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 capacity and a lack of IT equipment as set out below.

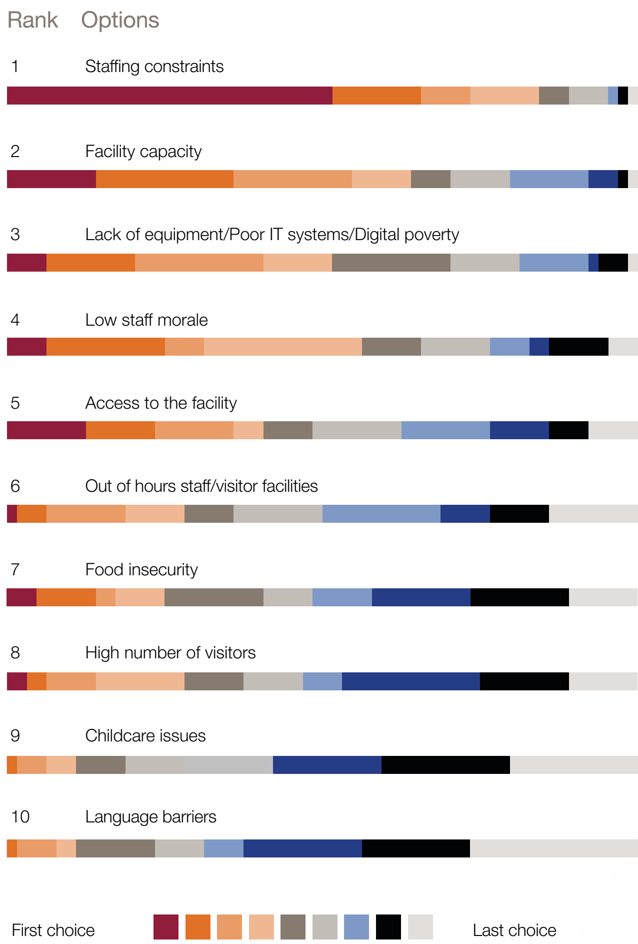
In direct response to these survey responses, the Portfolio Impact team is currently devising an initiative which leverages existing facilities management systems to help clients assign staff and rooms in real time. This will allow them to distribute their resources more effectively, identify and address any potential staffing shortfalls in advance, and enable staff to better prepare for their working day. InfraRed will seek to implement this solution over the coming year.

Average rating from 1 to 5 of overall view of our service providers that support the facility (e.g Project Company Management, Facilities Management, Helpdesk etc:.

Healthcare sector	Education sector
3.71/5	4.13/5

Average rating from 1 to 5 of overall view on the quality of the facility that your organisation occupies

Healthcare sector	Education sector
4.11/5	3.79/5



Community initiatives in action

Case study

Funding essentials during the cost-of-living crisis

Hardship Fund (Miles Platting Housing)

In April 2022, the portfolio company for Miles Platting Housing created a Hardship Fund for residents who are suffering as a result of the increased cost of living and the after-effects of Covid-19. The fund offers a grant of up to £750 for individuals who are in immediate and significant hardship or are at serious risk of becoming so. The funding goes towards essential household items and furniture, food, clothing, and transport.

£750

for individuals who are in immediate and significant hardship

Case study

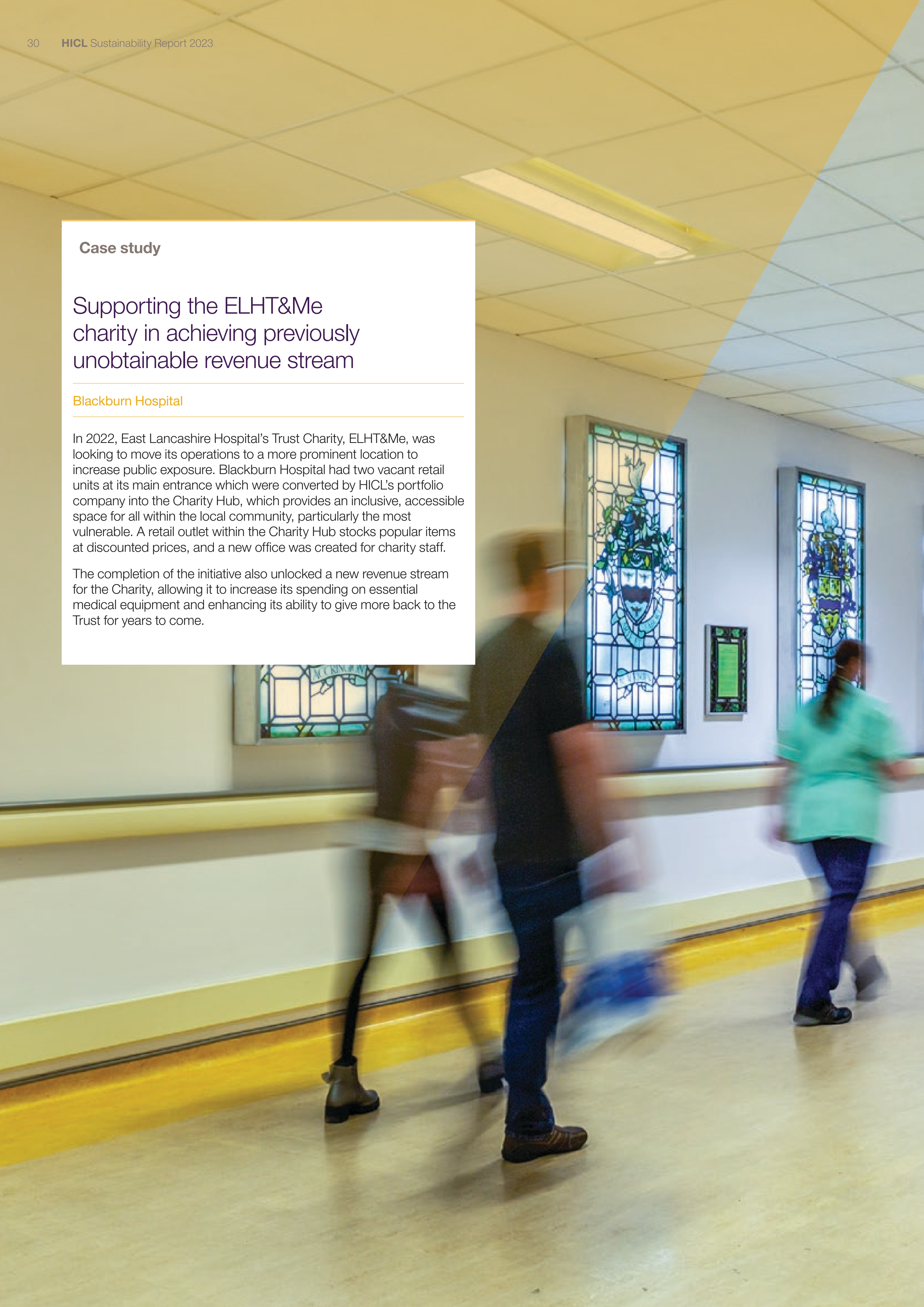
Spreading some Christmas joy

Across HICL's portfolio

Over the Christmas period, several assets in HICL's portfolio engaged in activities to help their local communities during the holiday. For their local children, Salford & Wigan Schools and Derby Schools joined forces with the relevant portfolio companies to launch a Christmas toy appeal where over £1,000 worth of toys were donated.

A number of initiatives were also targeted at elderly users of HICL's assets. At Ealing Care Homes, HICL's facilities management partner distributed gifts, and at Manchester Schools, the client, facilities management provider and portfolio company collaborated to give over 80 of their local care home residents a fun-filled Christmas lunch and party. Similarly, with the help of HICL's portfolio company team, Boldon School relaunched their annual Community Christmas Dinner in 2022 after Covid-19 had put a temporary halt to this much-loved community event. The occasion was a great success, with the school planning the same event for 2023.

With the aim of spreading some Christmas joy, Haverstock School worked with the charity Crisis at Christmas to provide hot food to the homeless for the seven days between Christmas and New Year's Day. The Company's facilities management partner donated and cleaned the required facilities free of charge.



Case study

Supporting the ELHT&Me charity in achieving previously unobtainable revenue stream

Blackburn Hospital

In 2022, East Lancashire Hospital's Trust Charity, ELHT&Me, was looking to move its operations to a more prominent location to increase public exposure. Blackburn Hospital had two vacant retail units at its main entrance which were converted by HICL's portfolio company into the Charity Hub, which provides an inclusive, accessible space for all within the local community, particularly the most vulnerable. A retail outlet within the Charity Hub stocks popular items at discounted prices, and a new office was created for charity staff.

The completion of the initiative also unlocked a new revenue stream for the Charity, allowing it to increase its spending on essential medical equipment and enhancing its ability to give more back to the Trust for years to come.

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.

During the year, InfraRed launched the Creating Better Futures Awards, 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 34 submissions, 13 achieved the Gold Standard award, nine of which were initiatives put forward by HICL assets.

With more than 100 ESG Community initiatives reported across HICL's portfolio during the period, the Creating Better Futures Awards will act as a further incentive for HICL and InfraRed to continually seek to work for local communities and reward those assets making a positive difference.

People

Although HICL has no direct employees, it indirectly employs over 1,200 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.

In this section

People highlights

0.38
RIDDORs per project across the portfolio over the year

96%
of portfolio companies carried out an independent Health & Safety audit over the year

27%
percentage of female directors on portfolio company boards

20%
Gender pay gap reported by HICL's portfolio companies with over 250 staff

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 2023, 37% (three) of the Board of Directors were women and 12% (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 are typically comprised wholly of 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.

The small number of HICL portfolio companies that employ staff directly have a current and appropriate diversity and inclusion policy 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. For the majority of portfolio companies where there are no direct employees, InfraRed ensures that all direct service delivery partners, such as HICL's facilities management counterparties, have a diversity and inclusion policy in place through the annual ESG questionnaire.

1 Also referred to as DEI Policy throughout this report

Promoting responsible supply chains

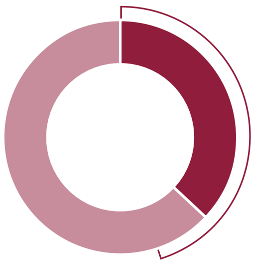
HICL recognises the importance of reinforcing its sustainability ethos and commitments throughout the entire operation and maintenance of its assets. This includes ensuring that the chosen suppliers mirror those same values and, in turn, provide a safe and healthy environment for their people.

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 support activities which amount to breaches of fundamental human rights, business ethics and compliance.

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.

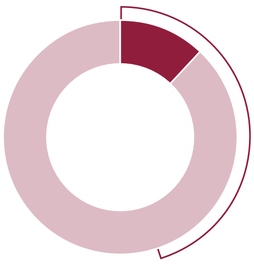
InfraRed's processes require an early assessment of any ESG 'red flags' before proceeding to the next stage of the investment process and conducting due diligence in respect of prospective acquisitions, using a form of checklist that includes a focus on labour conditions, and screening contractors and 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 who are female



Female	37%
Male	63%

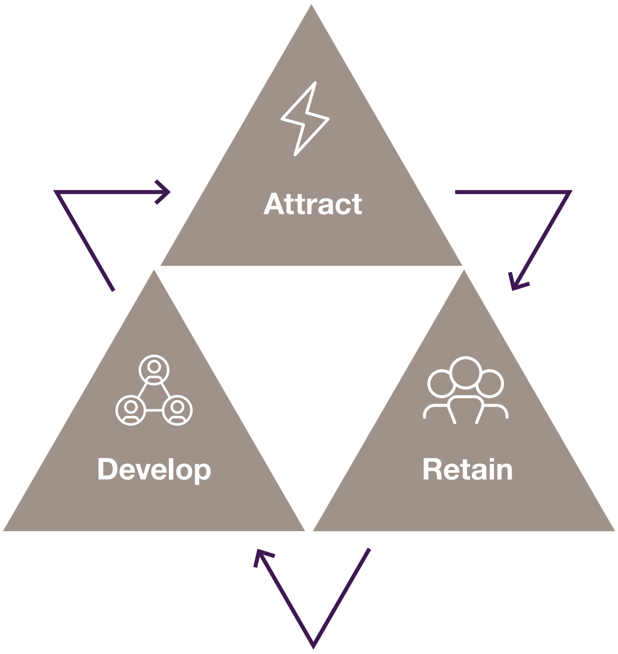
Directors from an ethnic minority



Ethnic minority	12%
White	88%

InfraRed's focus on its people

HICL's Investment Manager strives to foster a diverse, inclusive, and supportive workplace culture across the Company's portfolio, but also amongst its own staff. During the year, InfraRed implemented several new initiatives built around the principles of Attracting, Retaining and Developing diverse talent and empowering its employees:



Attract

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

- Engagement with specialist partners to expand recruitment outreach beyond traditional channels and actively seek out candidates from underrepresented backgrounds
- Ensuring that language used in job adverts is inclusive and encouraging applications even if experience does not perfectly align with all requirements in the job description

Retain

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

- Introduction of a workplace nursery scheme, which enables parents who use a nursery for the care of their children, up to the age of five, to pay for the nursery fees via gross salary
- InfraRed provides a contribution to the nursery as part of the scheme

Develop

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

- Delivered "Speaking Up & Calling it Out", a mandatory training for all staff to raise awareness of the impact that our behaviour can have on others and empower staff to call out behaviour that goes against the culture promoted at InfraRed
- Formed InfraRed Women's Network in response to feedback from a cultural survey, with several inspirational women from within the firm and the wider industry invited to give talks

The Investment Manager understands that it takes time for its implementation of measures to improve diversity within its talent pool to take full effect. The Manager also has a Diversity, Equity & Inclusion Committee with diverse representation that meets monthly to discuss and implement initiatives that foster a culture of open dialogue and awareness amongst its staff.[1]

As part of InfraRed's ongoing commitment to improving diversity within the business, particularly at the senior level, it has now set diversity targets. These are expected to be published later this year.

1 Statistics on Diversity, Equity & Inclusion amongst the Investment Manager's staff are included in InfraRed's 2023 Sustainability Report

Case study

Addressing the need for more equipment and resources through Recirculate

Bouygues E&S Solutions

Started in 2021 in response to the pandemic, Recirculate collects second-hand goods such as bikes and laptops, then refurbishes and donates them to people associated with our project.
The Recirculate initiative also supports prisoners with training opportunities, helping to reduce social exclusion and contributing to their employment prospects on release. In 2022, InfraRed continued its work with Bouygues E&S Solutions to deliver the Recirculate Project. Some key achievements to date include:

Donations of:

155 **bikes**	800 **desks**	30 **vacuums**
20 **laptops**	31 **whiteboards**	25 **Projectors**

Case study

Developing knowledge and encouraging personal growth

Affinity Water

HICL actively promotes learning and development initiatives across the portfolio to help develop knowledge and encourage personal growth. Affinity Water, which is HICL's portfolio company with the highest number of direct employees, now has over 30 trained mental health first aiders through targeted investment in staff wellbeing throughout the year. The company has also continued to focus on apprenticeship programmes across its production, leakage, and customer service teams. In 2022, 45 Affinity Water employees gained additional qualifications through the programme, and the company expects to broaden the range of opportunities available to apprentices in future years.

Governance

For HICL to act in a sustainable manner, it is critical 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 2023 Annual Report

In this section

Governance highlights

94%

of portfolio companies have strong corporate governance

100%

of portfolio companies have Health & Safety policies

90%

of portfolio companies have policies on Modern Slavery

94%

of portfolio companies have met our Active Stewardship criteria

Role of the Board and Committees

The Board has overall responsibility for sustainability and ensuring it is fully integrated into all aspects of the Company's operations. It also has responsibility for HICL's Sustainability Policy and other related policies (including Modern Slavery, Health & 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; and
- 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.

The Investment Manager has a dedicated Sustainability team, which is responsible for developing and implementing InfraRed's sustainability programme. InfraRed's Head of Sustainability, Kate McKeon, reports directly to the CEO, who is ultimately accountable for InfraRed's sustainability strategy and policy. InfraRed has also appointed Sarah Gledhill as Managing Director, Portfolio Impact, who co-ordinates InfraRed's approach to stakeholder engagement alongside the Asset Management team.

It is the responsibility of all InfraRed staff to incorporate sustainability considerations into the delivery of their day-to-day roles. Each member of InfraRed's senior management team and the Investment Committee have sustainability-related objectives. In turn, these performance objectives are linked to discretionary compensation. In the future, InfraRed will communicate to staff what proportion of their annual compensation is related to sustainability, and intends to introduce more quantitative indicators to measure sustainability performance.

Investment policy and screening

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 translate 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 bi-annual workshops, industry collaborations and targeted surveys.

Reporting

- Fund and firm reporting in line with the best practice frameworks and regulatory requirements such as TCFD UEU Taxonomy 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 Exclusion Policy, which is set out on its website, applies to all new transactions considered for investment by any of its funds. It outlines business activities and investments that InfraRed's funds will not support or facilitate, usually through a qualitative materiality threshold depending on the nature of the business. It specifically covers carbon-intensive industries such as coal, oil and gas (where not aligned to a low-carbon transition).

During the year, InfraRed enhanced its application of the Exclusion Policy for HICL investments by setting quantitative thresholds to various exclusions set out under the InfraRed policy, 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.

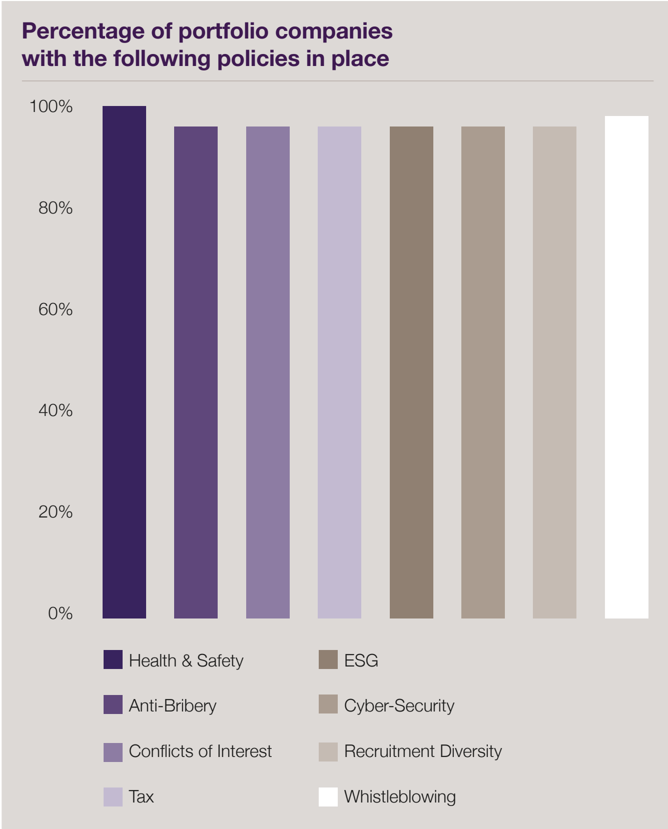
Governance of portfolio companies and active management

In order to ensure that HICL's partners adhere to the highest standards of corporate conduct, InfraRed's annual ESG survey contains several questions which seek to confirm that each of the Group's portfolio companies and sub-contractors have appropriate sustainability policies in place and that these are followed in the delivery of the services to clients and end users. Project companies are required to provide a copy of each of policy, which is then verified by an independent reviewer, to ensure that the policy is sufficient and has been updated within the last 18 months.

More generally, the ESG survey is a key governance tool. The data collected forms the basis of a number of the metrics and targets on pages 12-13, and underpins InfraRed's alignment with the EU's SFDR and UK's SDR requirements which are explained below.

InfraRed takes an active role in ensuring that HICL's portfolio companies, delivery partners and stakeholders are aligned with the Company's high standards for sustainability. Over the year, the Investment Manager hosted two ESG workshops which were open to the management service providers, facilities management providers and management teams of all of the Company's projects. InfraRed also facilitates a number of initiatives to support the implementation of sustainability best practice, including:

- **InfraRed Asset Management portal:** a cloud-based information management system that enables the simplification and streamlining of storage and accessibility of the Project Companies, reporting, records and administrative tasks
- **The Knowledge Centre:** a library to share best practice and lessons learnt for the Project Companies and to contribute to a continuous feedback loop
- **Sustainability Best Practice Guidance:** sets out best practice guidelines that InfraRed expects all Project Companies to adhere to in terms of sustainability
- **Climate Change Best Practice Document:** guidance on how to implement the findings of the climate change risk assessment in order to improve the climate resilience of the project



Regulatory frameworks and disclosures

HICL and InfraRed's commitment to sustainability best practice is demonstrated through the Company's continued alignment with several key regulatory frameworks in the period:

Sustainable Finance Disclosures Regulations ("SFDR") and EU Taxonomy

During the year, the Company has continued to embrace 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.

As a result of the data collected through InfraRed's annual ESG survey, the Company is in a position to consider Principal Adverse Impact ("PAI") indicators under SFDR for the first time. These can be found in the prescribed template format as an Appendix to this report and in HICL's 2023 Annual Report, but some of these PAIs also feature in the Sustainability Metrics and Targets on pages 12-13.

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 2023 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 is currently exploring whether a subset of HICL's investments (such as its OFTO assets) may be able to align with the EU Taxonomy in future. However, until InfraRed has completed its assessment in relation to such assets, HICL's investments 0% EU Taxonomy-aligned.
- 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)

The Board and the Investment Manager continue to closely monitor the UK's emerging approach to sustainability-related disclosures, including the FCA's proposed Sustainability Disclosure Requirements ("SDR"). In October 2022, the FCA launched a consultation on the proposed SDR, to which InfraRed submitted a response. This reflects the Investment Manager's commitment to ensuring that HICL's assets contribute positively to society and the environment and ensuring that the new regime results in consistent and reliable sustainability information for consumers and investors.

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 third consecutive year, HICL is able to report across all 11 recommended disclosures, despite full compliance with the recommendations only becoming mandatory in the most recent financial year.

The Company's full disclosure is set out on pages 41-46 and can also be found in the Company's 2023 Annual Report. Both the Board and Investment Manager share the view that TCFD should be viewed through the lens of continuous improvement, and have been able to enhance the disclosure provided this year by:

- Including Scope 1, 2 and 3 emissions data for the current year, as opposed to the 2019 baseline
- Incorporating HICL's interim net zero targets
- Incorporating additional climate-related metrics which are also PAI indicators
- Refreshing the format and layout of the disclosure in line with best practice

TCFD

Governance

Introduction

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.

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 2023 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 have reported against all 11 recommendations since 2021. We confirm that we have 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 46. 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.

For HICL to act in a sustainable manner, it is critical 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 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 79 of HICL's 2023 Annual Report. A diagram setting out HICL's reporting and risk management framework is set out on page 53 of HICL's 2023 Annual Report.

Strategy

In FY21, InfraRed engaged Willis Towers Watson to conduct a detailed climate change impact assessment, the scope of which included the entirety of HICL's portfolio.[1] From November 2021, all new investments made since the portfolio-wide exercise was completed have also been subject to a climate change impact assessment as part of InfraRed's pre-investment process (as set out in InfraRed's 2023 Sustainability Report). The results of the portfolio-wide assessment are still considered to be valid for the current financial year.

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 by the Manager to analyse potential physical and transition risks consists of a five-stage process:

The Investment Manager has identified that in the short term, based on current climate conditions, a subset of assets in which HICL has invested are exposed to acute and chronic physical risks arising from different extreme weather events, but the overall exposure is limited, and mitigations are in place. The Company 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 Company's strategy is 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	**Identify physical risks based on current conditions**	Analysis of exposure to 11 different physical risks[2] based on current conditions Each risk ranked 1-5 based on relative severity and frequency Climate hazard index calculated for each asset
2	**Identify physical risks based on future conditions**	Additional exposure rankings for five[3] of the 11 physical risks based on: – Business as usual (4°C above pre-industrial levels) – Energy transition/net zero (1.5°C above pre-industrial levels)
3	**Quantify physical climate risks**	For flooding and wind storms, potential financial exposure modelled For each asset, statistical simulation undertaken 10,000 times Average annual loss (excluding mitigation/insurance) estimated for each asset
4	**Assess transition climate risks**	Potential impacts of lower carbon transition, broken down by sector and geography Focus on UK and EU regulations and market trends with highest impact Opportunities as well as risks identified
5	**Undertake project level 'deep dives'**	16 Deep dives equivalent to over 45% of portfolio value selected by InfraRed based on: – Climate hazard index score – Potential financial impact, weighted by concession length and HICL ownership

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 the Defence Sixth Form College and A13 senior bonds
2 Coastal flood, river flood, heat stress, drought stress, tropical cyclone, winter storm, hailstorm, lightning, wildfire, flash flood
3 Coastal flood, river flood, heat stress, drought stress, tropical cyclone (4°C scenario only)

Physical risks 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.

Under a 'current' climate scenario, only eight assets have an unmitigated physical impact index above 3.0 (medium) This rises to 19 assets under a 4°C scenario, demonstrating the resilience of the portfolio even in the event of extreme climate change.

Beyond 2040, based on a 4°C scenario, there is slightly increased exposure to physical risks. 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, 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. Such a scenario is also likely to present a number of opportunities for the Company at both the asset and market level.

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.

During the year, a review of insurance costs was undertaken across the portfolio. 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 & 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 benefiting communications assets	4°C – low 1.5°C – med

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 in the section above. 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.

Further details are provided in the Risk & Risk Management section of the 2023 Annual Report.

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 2022. These can be found on page 21 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 16 of this report. The enhanced data collection exercise as part of InfraRed's net zero commitment will ensure that Scope 1, 2, and 3 emissions are routinely captured for all projects in future years.

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).

This year, the significant data collection exercise undertaken as part of InfraRed's net zero commitment allows for significantly enhanced disclosure. More details on combined Scope 1, 2 and 3 greenhouse gas emissions of HICL's entire portfolio for 2022 can be found on page 21 of this report.

Emissions (Attributable basis)	Year ended 31 December 2022
Scope 1	Nil
Scope 2	Nil
Scope 3	146,190 tCO_2e
Weighted average carbon intensity (tCO_2e/£m)	284 tCO_2e

M **PAI indicators – Mandatory**

V **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	**83%**	N/A[1]	90%	M	**Net zero targets:**[2] 50% Portfolio coverage 90% Engagement threshold by 2030
Water Reduction Initiatives	**92%**	88%	91%	V	**For portfolio companies where we have operational control:**[3] 100% of portfolio companies with material water and consumption to have reduction initiatives in place by 2025
Waste Reduction Initiatives	**92%**	93%	90%		
Positive Biodiversity Impacts	**83%**	55%	90%		
Climate Change risk register and Board meetings	**91%**	91%	90%		
Total Attributable GHG Emissions (Scopes 1, 2 & 3)	**146,190 tCO_2e**	63,821 tCO_2e (2019 data)	100%[4]	M	90% of emissions to be subject to direct or collective engagement and stewardship actions by 2030

1 2023 is HICL's first year of reporting Carbon Reduction Initiatives for the purpose of aligning to SFDR PAI's
2 A more detailed explanation of HICL's net zero targets and methodology can be found on pages 16-18
3 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
4 4 100% of HICL's portfolio by valuation has emissions data reflected in the Total GHG Emissions calculations. Of that 100%, portfolio companies representing 97% of the portfolio valuation provided some asset-related data to calculate emissions and the remaining 3% was estimated based on proxy data. For more information on HICL's methodology for estimating and reporting GHG emissions, please see pages 20-21

Metrics and targets continued

Net zero

Currently, 11% of the portfolio by value is fully aligned to net zero. This represents Affinity Water, and High Speed 1. Affinity and High Speed 1 have already committed to achieve net zero by 2030 and InfraRed's commitment to achieve net zero for HICL's entire portfolio by 2050. In addition, other assets inherently outperform required decarbonisation trajectory for their sector, and we will ensure that this percentage rises to 100% over time.

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

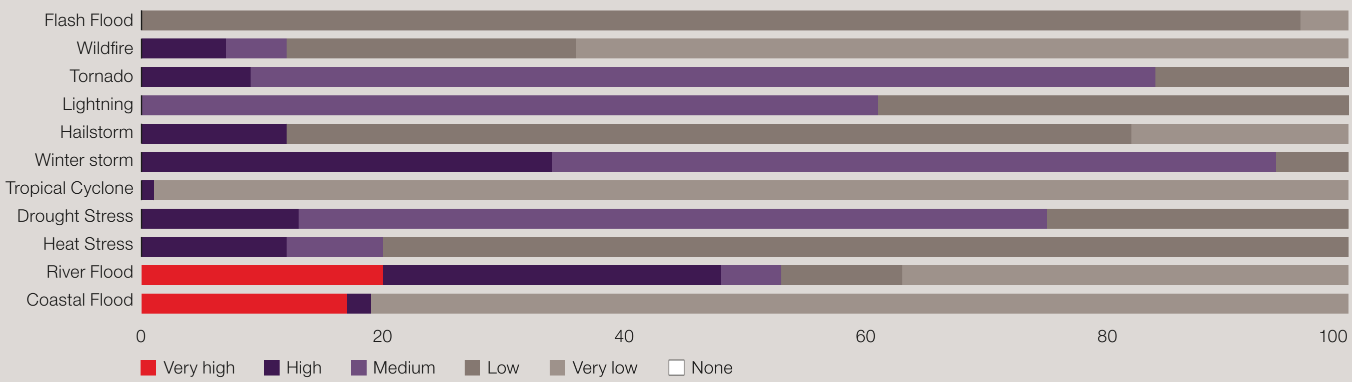
Engagement Threshold: 90% of all portfolio company emissions to be subject to direct or collective engagement and stewardship actions by 2030

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

As of 31 March 2023, 20% 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 number of projects) to physical climate risks based on current climate conditions, without mitigation:

Portfolio exposure (by number of projects)



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 41 Pages 53 to 54, 62 to 63, 74 of HICL's 2023 Annual Report
Strategy	– Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. – Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. – Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Pages 42 to 43
Risk Management	– Describe the organization's processes for identifying and assessing climate-related risks. – Describe the organization's processes for managing climate-related risks. – Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Page 44 Pages 53 to 54, 62 to 63, 74 of HICL's 2023 Annual Report
Metrics and Targets	– Disclose the metrics used by the organization 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 organization to manage climate-related risks and opportunities and performance against targets.	Pages 45 to 46

Looking forward

	Delivered in 2022	2023 objectives
Environment	**Net zero targets** InfraRed published net zero interim targets for all funds in November 2022. Within this framework, HICL has disclosed its own interim targets, and the entire portfolio is expected to align with InfraRed's pledge of achieving net zero by 2050 or earlier	**Net zero integration** Revise investment processes to further integrate NZIF requirements. This includes requiring portfolio companies to set decarbonisation strategies within given timeframes and formalising an engagement roadmap
Communities	**Launching InfraRed's Portfolio Impact strategy** Establishment of Portfolio Impact strategy, focused on strengthening relationships with HICL's portfolio company stakeholders. Client Insights survey launched during the year with 65 responses from Healthcare and Education projects	**Develop upon social impact framework** Develop and roll-out bespoke initiatives across the HICL portfolio in response to Client Insights survey results, and continue to improve stakeholder engagement by enhancing the scope of future surveys
People	**Portfolio company alignment with OECD and UN Global Compact frameworks** Alignment of HICL's portfolio companies to these frameworks monitored via InfraRed's ESG survey; engagement with management teams to promote overall awareness and understanding	**Create portfolio company DEI requirements** Communicate diversity, equity and inclusion expectations to portfolio companies that directly employ staff (comprising 31% of HICL's portfolio)
Governance	**PAI and emissions reporting** Annual ESG survey expanded to enable HICL to report as an Article 8 fund under the EU SFDR, including all mandatory PAIs. Enhanced data collection process to collect and report Scope 1, 2 and 3 emissions for all of HICL's portfolio companies for calendar year 2022	**Year on year comparisons of new metrics** Following the introduction of PAIs and 'live year' GHG emissions reporting, HICL will be able to provide year-on-year comparisons of these metrics in its 2024 Sustainability Report

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 Income Funds, InfraRed

Appendix

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 2022	Portfolio Coverage
Greenhouse gas emissions[1]	1. GHG emissions	Scope 1 GHG emissions	tCO_2e	**37,896**	100%
		Scope 2 GHG emissions	tCO_2e	**26,007**	100%
		Scope 3 GHG emissions	tCO_2e	**82,212**	100%
		Total GHG emissions	tCO_2e	**146,115**	100%
	2. Carbon footprint	Carbon footprint	tCO_2 e/£m invested	**37**	100%
	3. GHG intensity of investee companies	GHG intensity of investee companies	tCO_2 e/£m revenue	**469**	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	%	**92**	99%
	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	**4.86**	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**	93%
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**	91%

Adverse sustainability indicator		Metric	Unit	Metric as at 31 December 2022	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	**106**	89%
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation 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**	90%
	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]	88%
	12. Unadjusted gender pay gap[6]	Average unadjusted gender pay gap of investee companies	%	**20**	23%
	13. Board gender diversity[7]	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	%	**27**	90%
	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%

Appendix continued

Voluntary climate and other environment-related indicators

Adverse sustainability indicator		Metric	Unit	Metric as at 31 December 2022	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	%	**17%**[8]	90%
Water, waste and material emissions	7. Investments in companies without water management policies	Share of investments in investee companies without water management policies	%	**15%**[9]	91%

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 2022	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	%	**0**	93%
	3. Number of days lost to injuries, accidents, fatalities or illness	Number of workdays lost to injuries, accidents, fatalities or illness of investee companies expressed as a weighted average	Number of days	**0.38**	117 projects
	6. Insufficient whistleblower protection[10]	Share of investments in entities without policies on the protection of whistleblowers	%	**12**	93%
Human Rights	11. Lack of processes and measures for preventing trafficking in human beings[11]	Share of investments in investee companies without policies against trafficking in human beings	%	**16**	93%
Anti-corruption and anti-bribery	15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anticorruption and anti-bribery consistent with the United Nations Convention against Corruption	%	**0**	93%

1 Calculated using valuation information as at 31 March 2023.
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 Only six assets within the portfolio have direct employees. Of those assets, Affinity Water is the only asset which has more than 250 employees and hence is required to measure and report gender pay gap.
7 Calculated as the average of each investee companies' board gender diversity.
8 Share of investments calculated by valuation as at 31 March 2023.
9 Share of investments calculated by valuation as at 31 March 2023.
10 Share of investments calculated by valuation as at 31 March 2023.
11 Share of investments calculated by valuation as at 31 March 2023. For the purposes of this metric we have assessed whether a project undertakes training and audit procedures in respect to the Modern Slavery Act or equivalent.

Glossary

CEO	Chief Executive Officer
ESG	Environmental, Social and G overnance
EU	European Union
EU SFDR	European Union Sustainable Finance Disclosures Regulations
EU Sustainable Corporate Governance directive	Entitled the 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 impact; 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	Short for 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	The Net Zero Asset Managers initiative is an international group of 236 asset managers, representing US$57.5tn 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	Short for Net Zero Investment Framework which InfraRed is aligned to as one of 236 asset managers committed to reaching net zero across the entire portfolio by or before 2050
OECD Guidelines for Multinational Enterprises	The OECD Guidelines for Multinational Enterprises 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	Short for Principal Adverse Impact, these are 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	RIDDOR, or the 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	Scope 1 emissions 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	Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling
Scope 3 emissions	Scope 3 emissions 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	Short for UK Sustainable Disclosure Requirements, InfraRed continue to track SDR's timeline and expected requirements
TCFD	Short for 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	Short for 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

Designed and produced by Radley Yeldar RY.com

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Find out more

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