



Main  
Entrance



HICL Infrastructure PLC  
Sustainability Report 2020

Delivering Sustainable Value.

# Sustainability Report

## Defining sustainability for HICL

HICL's investment proposition is to deliver sustainable income from a diversified core infrastructure portfolio that is at the lower end of the risk spectrum.

Creating a long-term, sustainable income stream from core infrastructure based within communities is predicated on giving prominent consideration to the Company's role in society and the sustainability of its operations. HICL's approach is firmly grounded in the belief that its success is inextricably linked to the social and economic prosperity of the communities it operates within and the richness of their surrounding environment. In this context, sustainability means ensuring that HICL and each of its portfolio companies takes responsibility for their environmental, social and governance impacts, risks and opportunities. HICL's robust and ambitious governance framework helps to ensure this is delivered.

The infrastructure in HICL's portfolio impacts individuals, communities, societies and their environment. With this comes a responsibility for HICL and its service providers to act with care, consideration and integrity. These responsibilities are discharged by the Board and InfraRed in order to mitigate risks and to create a positive impact which align with and go beyond HICL's commercial objectives.

InfraRed has developed and, through HICL, continues to deliver reliable and resilient infrastructure that supports economic development and human well-being. Being public infrastructure, there is a focus on inclusive, affordable and equitable access for all. HICL actively contributes to the United Nations (UN) Sustainable Development Goals (SDGs). The nature of HICL's investment proposition means the Company inherently contributes, in particular, to developing industry, innovation and infrastructure (SDG 9); and building sustainable cities and communities (SDG 11).

HICL also leverages its resources, in particular that of InfraRed, its Investment Manager, to make a positive contribution to promote community health and well-being (SDG 3), improve social mobility through education (SDG 4) and make a contribution to act against adverse climate change (SDG 13).

The portfolio statistics on the following page demonstrate the reach of the portfolio within society. The case study opposite demonstrates HICL's ongoing contribution to the community in response to the Covid-19 challenge.

## Responsibilities of the Board

The Board has overall responsibility for HICL's Sustainability Policy (<https://www.hicl.com/about-us/sustainability>) and its application. 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. HICL's Sustainability Policy is subject to ongoing development, including a formal annual review.

HICL's own approach to the stewardship of its investments, enshrined in HICL's business model, is built on a system of rigorous checks and balances. In accordance with the AIC Code of Corporate Governance (the "AIC Code"), the work and conduct of HICL's Board is regularly reviewed and evaluated.

The Board's committees have key roles:

- ▲ The Risk Committee oversees and challenges InfraRed's risk management processes and analysis;
- ▲ The Management Engagement Committee considers how HICL service providers adhere to HICL's Sustainability Policy;
- ▲ The Nomination Committee ensures diversity amongst Directors to bring broad expertise to the Board's discussions and oversight of the work of the Investment Manager; and
- ▲ The Audit Committee reviews the Company's approach to disclosures, including those relating to climate change.





# 10 million

Over 10 million people with direct access to the healthcare facilities in the portfolio



# 1.8 GW

Connecting offshore wind generation with enough capacity to power 1.7 million homes



# 120,000

Over 120,000 student places across the school, college and university facilities in the portfolio



# 500

Over 500km of road and high-speed railway across the portfolio, delivering regional interconnectivity



# 3.6 million

People to whom Affinity Water delivers clean drinking water



# 50

Over 50 police stations, custody centres, fire stations and training facilities

## HICL's contribution to the Covid-19 response

Within HICL's portfolio are 25 hospitals, with over 9,000 beds, including over 600 acute, critical care, intensive care, high dependency and emergency beds. The portfolio companies manage and contract key services that keep the infrastructure of the hospitals available for the UK's National Health Service ("NHS") to deliver healthcare. These services comprise maintenance and major asset renewal, and may also *inter alia* include portering, catering and cleaning.

The Investment Manager has set out its Code of Conduct in respect of the Covid-19 pandemic and its impact on the portfolio, which has been published the InfraRed website. Portfolio companies are working closely with the NHS across the portfolio to support their efforts in responding to this global health emergency and transitioning the infrastructure to meet their evolving needs.

The activities at each of the 25 hospitals are bespoke to the requirements of the associated NHS Trust. For example:

- ▲ At Pinderfields Hospital, wards were reconfigured through the PFI contract to increase the number of intensive care beds from 18 to 47.



# 25 Hospitals



# 9,000+ Beds

- ▲ At another hospital, portfolio company subcontracted engineers provided specialist support and advice to the Trust in adapting ventilation within the existing building environment to control the spread of Covid-19.
- ▲ Brentwood Community Hospital has been transitioned through the portfolio company into a Covid-19 hub. This delivered six Covid-19 wards. It has required installing new partitioning, reconfiguring plumbing, replacing carpets with vinyl floors as part of infection control, and increasing cleaning regimes, security, medical oxygen and inpatient meals.

**"PFI contracts provide vital services and support to our public services across the UK. The provision of those services and support is needed as part of our national response to the Covid-19 emergency."**

**Infrastructure and Projects Authority**

# Sustainability Report (continued)

## Responsibilities of InfraRed

HICL's Sustainability Policy applies to both making new investments, including throughout InfraRed's investment opportunity screening and due diligence processes, and the optimisation of the current portfolio, including InfraRed's asset management activities, monitoring and reporting. The application of HICL's Sustainability Policy to making new investments and the management of HICL's portfolio is undertaken by InfraRed, as Operator, so that HICL:

- ▲ Invests in assets which have a social purpose, which promote social development and quality of life;
- ▲ Creates a positive environmental impact now and for future generations;
- ▲ Makes an overall beneficial impact on the communities in which our assets are located; and
- ▲ By doing all of the above, endeavours to accommodate the interests of stakeholder groups of HICL's investments.

InfraRed has been a signatory of the Principles for Responsible Investment ("PRI") since 2011. InfraRed continues to take a leadership role in the implementation of robust responsible investment strategies through its ongoing membership of the PRI Infrastructure Advisory Committee.

InfraRed's infrastructure business maintained its A+ rating, as assessed by PRI, for the fifth consecutive year. This is the highest attainable rating and above the peer median. The PRI assessment methodology can be found on the PRI website: [www.unpri.org/report/about-reporting-and-assessment](http://www.unpri.org/report/about-reporting-and-assessment).

InfraRed's Responsible Investment Transparency Report and PRI Assessment Report are both available via HICL's website at: [www.hicl.com/sustainability](http://www.hicl.com/sustainability).

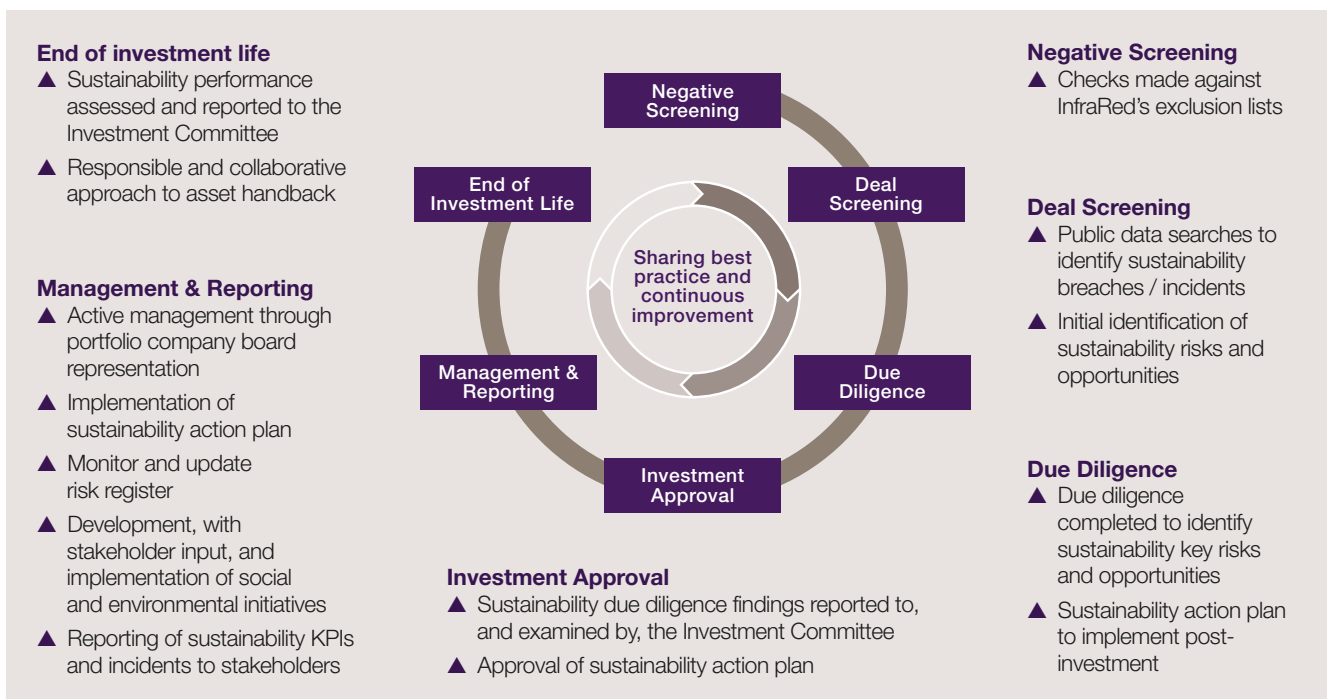
A dedicated Sustainability Manager has been appointed by InfraRed to ensure an appropriate level of focus is given to sustainability matters and the evolving landscape of regulation and best practice.

The Board is pleased that InfraRed is leading by example and minimising the negative impact of their own operations, including becoming a net zero carbon emissions firm, by June 2020, by reducing its own carbon emission related activities such as air travel and using accredited offsetting schemes.

## Incorporation of sustainability in the investment process

The application of HICL's Sustainability Policy is undertaken by InfraRed. The Investment Manager publishes its own sustainability policy, including its approach to the integration of sustainability considerations into the investment cycle, on InfraRed's website ([www.ircp.com/sustainability-policy](http://www.ircp.com/sustainability-policy)).

Sustainability is integrated into each stage of the Investment Manager's investment process; from negative screening against the firm and fund exclusion lists, deal screening, due diligence, the investment approval, ongoing management and reporting throughout the ownership period until an investment reaches the end of its economic life and is decommissioned or when we exit the investment, as demonstrated in the graphic below.



## Remuneration

As noted in the Investment Manager's Report, InfraRed has day-to-day responsibility for the Company. Contributions to sustainability are embedded into its staff<sup>2</sup> performance objectives and are taken into account in annual performance assessment and compensation reviews, including for the members of the HICL Investment Committee.

## Sustainability risks

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;
- ▲ **Portfolio performance risk:** sustainability risks can affect operational performance, including transitional and physical risks associated with adverse climate change; and
- ▲ **Operational risk – execution:** through transaction due diligence and investment decisions.

Sustainability risks are reported in Section 3.7 of the 2020 Annual Report – Risk & Risk Management.

## Taskforce for Climate-related Financial Disclosure (“TCFD”)

The World Economic Forum's Global Risk Report 2020 presents the major risks facing the world. For the first time, a single category of risk dominates: environmental risks. This includes the risks of extreme weather, climate action failure, human-made environmental disasters and water crisis.

On 2 July 2019, the UK Government announced, in its Green Finance Strategy, the expectation that listed companies and large asset owners should make disclosures in line with the TCFD recommendations by 2022. In October 2019, the Financial Reporting Council has reported that whilst there is no formal requirement yet, reporting against TCFD would be one step towards fulfilling a company's obligations to provide information about how directors have performed their duty to promote the success of the company under Section 172 of The Companies Act 2006, and how opportunities and risks to the future success of the business have been considered in line with the UK Corporate Governance Code 2018.



Disclosure aligned to TCFD guidance in consistent with the Company's approach to promoting best practice disclosure. Climate change is a live topic and expertise on the subject continues to evolve. This year, the reporting set out below focuses on governance and risk management. In future periods, the reporting will include greater detail on scenario analysis and, in time, metrics and targets.

## Governance of climate risk

Climate-related risks and opportunities are a subset of the broader sustainability risks and opportunities. The Board's oversight of climate-related risks and opportunities and the Investment Manager's role in assessing and managing these is detailed above.

In addition, the Investment Manager has established a climate-related working group. The initiative brings together different disciplines across the business including fund management, portfolio management, asset management, risk and compliance, investor relations and the transaction team. The purpose of the group is to evolve InfraRed's thinking in relation to the impact of climate-related risks and opportunities on the business and its portfolio under management, and to ensure consistent application and reporting of resulting actions.

## Strategy

HICL's investment strategy focuses on core infrastructure. These investments by their nature are embedded within communities and the broader environment, and adverse climate change has the potential to impact the portfolio. International, national and regional policies that seek to reduce the extent of adverse climate change represent opportunities as well as risks for both HICL and the community.

For example, HICL's investment in Affinity Water requires investment to respond to the increasing pressure on water infrastructure in South East England from continuing population growth and the potential for extreme weather linked to climate change. Such investment would be for the benefit of society through improving environmental and operational resilience, and for investors through growth of the company's regulated capital value and therefore long-term returns.

The potential impact of government policies associated with a transition to a net zero carbon economy was factored into the Investment Manager's business case when bidding for a gas distribution related opportunity. On this occasion, InfraRed's inclusion of forecast costs associated with the transition to a net zero carbon economy into the investment valuation adversely impacted HICL's competitiveness, as not all managers are making such long-term considerations when bidding for investment opportunities.

InfraRed's systematic approach to incorporating climate change considerations in its investment processes will, in other situations, create opportunities and give HICL a competitive advantage. As noted at the Company's Capital Markets Event in January 2020, long-term analysis of future climate-related change can also result in enhancing business plans through, for example, the potential for repurposing existing infrastructure.

<sup>2</sup> InfraRed's partners and employees

# Sustainability Report (continued)

Over the coming year, InfraRed's climate change working group will be developing climate-related scenarios, including where the rise in global temperatures is restricted to 2°C, and will assess the potential impact on portfolio cash flows and value. This work will also drive the determination of appropriate metrics and targets to assess climate-related risks and opportunities.

## Risk management

As noted above under "Sustainability risks", the Investment Manager's risk management framework integrates the assessment and management of climate-related risks as a subset of wider sustainability risks through the Political, the Portfolio Performance and the Operational Risk – Execution risk classes.

HICL's processes for identifying and managing risks, including those associated with the physical and transitional impact of climate change, are set out in Section 3.7 of the 2020 Annual Report – Risk & Risk Management.

## Metrics and targets

HICL's Scope 1, Scope 2 and, voluntarily, Scope 3 greenhouse gas emissions are disclosed in the Company's Streamlined Energy and Carbon Reporting below.

## Streamlined Energy and Carbon Reporting

HICL has adopted the operational control boundary approach for the measurement of energy emissions, 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 and as a result HICL is classed as a low energy user.

As part of its commitment to improving carbon reporting, HICL has voluntarily included UK and global energy use where individual investments have operational control, but where HICL does not have operational control itself (Affinity Water, HS1, Belfast College and Northwest Parkway) within its Scope 3 emissions data.

An average person in the UK uses 14.1 tCO<sub>2</sub>e/year<sup>3</sup>.

Carbon emissions have decreased by 8% year on year. The Investment Manager remains committed to reducing carbon emissions where possible and continues to focus on energy saving opportunities in underlying projects where appropriate.

## Other Greenhouse Gas ("GHG") emissions

As a result of the above energy use (i.e. electricity and use of transportation fuels), HICL was also responsible for the following emissions: methane 58 tCH<sub>4</sub>e (2019: 59 tCH<sub>4</sub>e), nitrous oxide 152 tN<sub>2</sub>Oe (2019: 176 tN<sub>2</sub>Oe). No hydrofluorocarbons, perfluorocarbons or sulphur hexafluoride emissions were made.

## Methodology

Emissions have been calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. UK Government Conversion Factors have been utilised for UK investments and the US Environmental Protection Agency Conversion tool to calculate emissions for US i.e. global (excluding UK) investments.

Energy use has primarily been collected from meter data and invoices from suppliers. In some instances, energy use has been estimated due to non-coterminous year ends, where full period data was not yet available. Additionally, office energy use has been estimated with reference to the pro rata number of employees using the office space or benchmarked where data is not directly available. Some transport emissions have been estimated based on expenditure, as actual usage data is not tracked. User data is not tracked by all projects and in some instances has been estimated based on third-party information. HICL is implementing additional procedures to improve the accuracy of the information used in the measurement of energy use.

Emissions have been measured over the period 1 January to 31 December. This is not coterminous with HICL's year end as not all data from underlying projects is available before the reporting date.

Disclosure <sup>4</sup>	31 December 2019		31 December 2018	
	UK and offshore	Global (excluding UK and offshore)	UK and offshore	Global (excluding UK and offshore)
Emissions from investments with control over emissions, for which the company does not control (Scope 3) / tCO <sub>2</sub> e <sup>5</sup>	25,416 tCO <sub>2</sub> e	186 tCO <sub>2</sub> e	27,515 tCO <sub>2</sub> e	194 tCO <sub>2</sub> e
Emissions from office use and business travel for which the company does not own or control (Scope 3) / tCO <sub>2</sub> e <sup>6</sup>	118 tCO <sub>2</sub> e	9 tCO <sub>2</sub> e	102 tCO <sub>2</sub> e	6 tCO <sub>2</sub> e
Total gross Scope 3 emissions / tCO <sub>2</sub> e	25,534 tCO <sub>2</sub> e	195 tCO <sub>2</sub> e	27,617 tCO <sub>2</sub> e	200 tCO <sub>2</sub> e
Intensity ratio: tCO <sub>2</sub> e (gross Scope 1, 2 & 3) per user	0.001 tCO <sub>2</sub> e / user	0.000 tCO <sub>2</sub> e / user	0.001 tCO <sub>2</sub> e / user	0.000 tCO <sub>2</sub> e / user

<sup>3</sup> Source: carbonindependent.org

<sup>4</sup> Companies included in the disclosure are: Affinity Water Limited (HICL share 33.2%), Belfast College (HICL share 75%), HS1 Limited (HICL share 21.8%) and Northwest Parkway LLC (HICL share 33.3%)

<sup>5</sup> Scope 3 investment emissions relate to the operation of assets at the following projects: Affinity Water, Belfast College, HS1 and Northwest Parkway

<sup>6</sup> Scope 3 emissions relate to emissions associated with office use and travel of the employees of the Fund Manager, the Board of Directors and the Company Secretary

### Energy efficiency action taken

In the period covered by the report, Northwest Parkway delivered a LED lighting initiative which is forecast to save 10,360 tCO<sub>2</sub>e (HICL share 3,450 tCO<sub>2</sub>e) over the lifetime of the concession. Affinity Water, Belfast College, High Speed 1 and Northwest Parkway are also investigating additional ways in which they can implement additional energy efficiency measures such as regenerative braking on High Speed 1 and improving and replacing equipment at Affinity Water.

While non-operational control investment emissions data is not published, HICL uses its influence as an investor to promote a commitment in investee companies to minimise their environmental footprint, invest in the mitigation of their environmental impact and implement energy efficiency measures. This is an important part of portfolio risk management procedures and value creation for each investment.

### Renewable energy

In the period, 98 kWh (2019: 96 kWh) of renewable energy was used by Affinity Water, Belfast College, HS1 and Northwest Parkway. HICL encourages underlying assets to utilise renewable energy sources and install renewable energy generation where possible and the above projects are investigating ways in which to switch to renewable energy suppliers in the future.

### Review of the Year

The Board, through its Management Engagement Committee, has reviewed HICL's performance and the performance of its service providers over the last 12 months and confirms compliance with HICL's Sustainability Policy. On the basis of the Investment Manager's recommendations, the Directors have evolved the Company's policies and procedures in this regard and have published a new Sustainability Policy on the Company's website.

Each individual portfolio company is responsible for developing environmental and social programmes aligned with the needs of its stakeholders, including clients, users and the wider community that benefits from the infrastructure. As a result, there is a wide range of initiatives across the portfolio. Set out on the following pages are selected activities that demonstrate typical sustainability initiatives carried out across the portfolio.

### Reporting sustainability activities

InfraRed seeks to ensure that each of the Group's portfolio companies have appropriate sustainability policies in place and that these are followed in the delivery of the services to clients and end users. HICL's portfolio companies are surveyed by InfraRed to monitor sustainability initiatives; and each year the benchmark for what is expected is increased with greater scrutiny placed on the activities of each portfolio company, as reported by the management teams.

The survey response rate for the year ended 31 December 2019 was 100% (2018: 96%).

The survey uses 27 Key Performance Indicators ("KPIs") that have been developed by the Investment Manager to measure sustainability performance. Rankings are assessed on a star system ranging from one star to five stars. At the end of calendar year 2019, 87% of the HICL's investments were awarded four- and five-star ratings, which was up from 56% of those that completed the survey at the end of 2018. Detail of the responses is included in the "Governance" section of this report, below.

### Health & Safety



Health & Safety for all stakeholders, including creating safe environments, is of paramount importance in the operation of portfolio companies. Each year Health & Safety reviews are carried out to ensure appropriate procedures and policies are in place and being adhered to. Many of these reviews are supplemented by the support of external Health & Safety consultants.

RIDDORs (incidents under the UK's "Reporting of Injuries, Diseases and Dangerous Occurrences Regulations") that occur are typically within the workforce of portfolio company subcontractors, rather than in the portfolio companies themselves. The Investment Manager monitors RIDDORs, and equivalent incidents in countries other than the UK, for evidence of systematic issues and, where appropriate, lessons learned are shared across portfolio companies. Each RIDDOR, or equivalent, is reported to the Risk Committee, which in turn provides a Health & Safety update to the Board each quarter. Their frequency is low across a portfolio of 117 investments with thousands of individuals employed across the subcontractor base. In the year ended 31 March 2020, total RIDDORs across the HICL portfolio and its subcontracts numbers 48 (2019: 46). Portfolio companies seek to influence their subcontractors to continuously improve the Health & Safety conditions of their own workforce, particularly where trends are observed at one particular facility or across the facilities operated by a single counterparty.

### Case studies

As noted above, although HICL contributes to multiple SDGs, the nature of HICL's investment proposition means the Company inherently contributes, in particular, to addressing the following UN SDGs: develop industry, innovation and infrastructure (SDG 9); and build sustainable cities and communities (SDG 11).

The following case studies demonstrate how the infrastructure in HICL's portfolio intrinsically supports social, environmental and economic sustainability leveraging InfraRed's approach to stakeholder engagement. The Investment Manager works hard to build trusting partnerships between the public and private sectors. These are central to leveraging the flexibility available in PPP contracts to adapt facilities to the changing needs of clients, and to risk management for the Company.

# Sustainability Report (continued)

## Environmental

The Investment Manager, project management teams and contractors seek innovative approaches to improving the environment around the infrastructure. Environmental initiatives include those that:

- ▲ act as a catalyst to develop or promote wider environmental activities or actions within the broader community;
- ▲ promote a responsible approach to the environment through the adoption of relevant procedures and working practices;
- ▲ help to demonstrate, promote and educate the users of the facilities in relation to environmental issues; and
- ▲ support trials and proof of concept tests for environmental improvements or energy efficiency measures that would not otherwise be implemented because there is no proven value-for-money test.

The following are other examples of environmental initiatives that took place across the portfolio in the year:

- ▲ In the year, the key 'eat and sleep' assets of the Army Basing Programme ("ABP") were completed at the Allenby & Connaught Project. The ABP provides new and improved infrastructure for 4,000 incoming service personnel at garrisons across Salisbury Plain and at Aldershot. This project includes<sup>7</sup>:

- Photovoltaic panels covering 5,920m<sup>2</sup> of roofing on new buildings demonstrating that social infrastructure assets can increase the share of renewable energy in the energy mix;
- Low-flush toilets and sustainable drainage systems thereby increasing water-use efficiency;
- 100% of non-hazardous demolition waste was crushed and reused on site, which substantially mitigated waste generation; and
- Over 600 bat bricks, boxes and cavities have been installed, representing action to reduce degradation of natural habitat.

- ▲ The disposal of clinical waste at HICL's healthcare facilities is often through incineration, and so the introduction of more efficient disposal practices not only delivers savings for clients but also reduces the adverse environmental impact of this necessary process. Such initiatives have been delivered at specific sites and are being developed elsewhere through Efficiency and Savings committees, jointly conducted between NHS clients and the private sector, across HICL's healthcare portfolio.



<sup>7</sup> [https://aspiredefence.co.uk/wp-content/uploads/2019/11/20191022-PAC\\_Issue\\_October.pdf](https://aspiredefence.co.uk/wp-content/uploads/2019/11/20191022-PAC_Issue_October.pdf)



## Social

Social initiatives include those that:

- ▲ enhance the social and physical environment of the infrastructure and its neighbouring community; and
- ▲ promote and enhance the lives and well-being of the client staff, users of the infrastructure and the local community.

A number of social initiatives took place across the portfolio in the year, including:

- ▲ At the Royal Canadian Mounted Police 'E' Division Headquarters (Canada) a new forensics laboratory entered into service. The capital cost of c. CAD 52m was funded by the client, and construction and subsequent maintenance services are being delivered by the private sector through the partnership contract structure. The modern, expanded facilities support the justice system by enhancing the work of the Royal Canadian Mounted Police.
- ▲ At the A63 Motorway, a variation to Junction 9 of the road was completed in June 2019. The upgrade improves an important trade transport system and the investment profile for HICL's shareholders.



A number of variations were delivered at one of the portfolio's UK hospital projects. These included:

- A remodelling of the Ambulatory Emergency Care department, increasing access to the NHS's quality, essential health care services;
- The installation of new retail facilities, supporting the well-being of users of the facility;
- A new clinical waste processing system, that was introduced by this project's subcontractor, is set to reduce the clinical waste disposal costs for the project's NHS Trust client; an example of how HICL is supporting NHS Trusts' efforts to find cost efficiencies.



- ▲ InfraRed raised over £28,000 through its annual corporate dodgeball tournament, to help fund the building of a CineGym at the Queen Alexandra Hospital, Portsmouth, PPP project (100% owned by HICL), to promote patient well-being. This is a dual-purpose room, offering children with cystic fibrosis access to specialist facilities designed to provide a suitable environment for exercise during the day and a cinema room by night.



- ▲ In addition to building partnerships with public sector clients, InfraRed has a history of developing partnerships between infrastructure projects, inside and outside the HICL portfolio, to share lessons learned and good practice. During the period, the project company chief executive of the 800-bed Royal Adelaide Hospital in Australia visited four of HICL's projects. They held discussions with both the infrastructure project management teams and the public sector clients to help inform operational strategies. Subsequent dialogue helped facilities prepare for the impact of Covid-19.



# Sustainability Report (continued)

## Governance

### HICL Infrastructure PLC

At a Company level, the Board recognises the importance of a culture of strong corporate governance that meets the requirements of the UK Listing

Authority as well as other regulatory bodies. The Board also considers the success of HICL will include active contribution to the UN SDGs. Effective partnerships, that preserve and enhance outcomes, are essential for social sustainability and delivering long-term returns to HICL's investors.



During the year, the Board:

- ▲ Appointed an eighth Director to bring a broader diversity of expertise to the Board's discussions and oversight of the work of the Investment Manager, as well as forming an important step towards Board succession planning. In making this appointment, HICL meets the expectations of both the Hampton-Alexander Review and the Parker Review. As at 31 March 2020, 37% of the Directors were women, and 12% of the Directors were from an ethnic minority.
- ▲ Undertook site visits to Affinity Water, High Speed 1 and Queen Alexandra Hospital. At each site visit, the Directors received presentations from the management teams and were able to meet staff and subcontractors delivering the infrastructure day-to-day, encouraging a sharing of views and experience between the Board of HICL and the Company's key partners.
- ▲ Utilised the services of an external remuneration consultant to benchmark the remuneration of Directors to ensure this is at an appropriate level.

In the coming year, the Board will appoint a third-party adviser to undertake a board effectiveness assessment. The last such appraisal was completed in 2018.

## The Investment Manager

The Investment Manager promotes an ethos of stewardship, responsibility and accountability.

InfraRed has improved the integration of sustainability considerations into its investment process. The consideration of sustainability in InfraRed's investment processes, as they apply to HICL, is set out above in the section "Incorporation of sustainability in the investment process".

During the year, sustainability considerations resulted in value enhancements for investors and other stakeholders, as set out above in this Review of the Year. Sustainability considerations also resulted in two transactions not being delivered for HICL:

- ▲ Rejecting one transaction in due diligence when it was discovered that whilst the building materials used were in compliance with local building regulations, they were not considered adequate by the Investment Manager in respect of fire safety and expectations of future regulations; and
- ▲ Being unsuccessful on a gas distribution related opportunity due to the inclusion of forecast costs associated with the transition to a net zero carbon economy into the investment valuation, which adversely impacted HICL's competitiveness.



A sustainable approach to the management of the core infrastructure in HICL's portfolio, together with positive stakeholder engagement, is core to HICL and InfraRed's asset management strategy. Effective partnerships, that preserve and enhance outcomes, are essential for social and economic sustainability, and for delivering long-term returns for society and to HICL's investors. A case study on InfraRed's approach to stakeholder engagement has been provided later in this section.

## The Portfolio

Establishing a strong governance framework for each portfolio company is a cornerstone of active asset management and important to ensuring long-term sustainability. HICL has a shareholding of at least 50% across 60% of the portfolio by value. This rises to 72% when taking into account other funds managed by InfraRed. Governance rights are established across the remaining portfolio companies where HICL has an equity interest through negative control, whereby InfraRed appointed portfolio company directors have veto rights over key decisions.

In the portfolio<sup>8</sup>:

- ▲ 97% of portfolio companies reported using a risk register (prior year: 96%).
- ▲ 68% of portfolio companies reported making voluntary contributions to charitable or community activities (prior year: 60%).
- ▲ 95% and 94% of portfolio companies reported monitoring energy usage and water usage, respectively.
- ▲ 87%, 80% and 78% of portfolio companies reported having energy usage, water usage and waste reduction initiatives, respectively.

▲ Governance policy adoption was good with:

- 100% of portfolio companies providing operational services to and / or undertaking maintenance for public sector clients or, as in the case of toll roads and Affinity Water, end users reported having a health & safety policy;
- 97% having a cyber security policy;
- 90% having an ESG policy;
- 99% having an anti-bribery policy;
- 98% having a conflict of interests policy;
- 96% having an anti-discrimination policy;
- 97% having a whistleblower policy; and
- 97% having an anti-modern slavery related policy.

It is not always possible to achieve 100% adoption, particularly if there is resistance from co-shareholders to implement policies and initiatives. For example, as PPP concession portfolio companies may often have no employees, there may be reluctance to implement policies that relate to staff. However, such policies are still important as they set the tone for engaging with the portfolio company's supply chain. As such, the Investment Manager's Asset Management team uses its influence through directorships on the boards of the portfolio companies to increase these percentages.



<sup>8</sup> Prior year comparatives provided where reported in the 2019 Annual Report and Accounts of HICL Infrastructure Company Limited

# Case Study: Affinity Water's Water Resource Management Plan

The largest water-only supplier in the UK

## Key Facts<sup>1</sup>

>3.6m  
people served across the UK

950m litres  
water supplied per day

64%  
water supplied sourced from  
groundwater sources

16,700km  
of mains pipes

£1.37bn  
investment in the business over the  
period from 2020 to 2025

87  
ecological surveys completed under  
programme to promote biodiversity

## Overview

Affinity Water is the UK's largest water-only company. It serves three geographically separate regions in the South East of England.

Affinity Water generates income from supplying water to both residential and, via intermediaries, commercial consumers within a 4,515km<sup>2</sup> supply area. In doing so, Affinity Water maintains 95 water treatment works and over 100 reservoirs.

Affinity Water's 60-year water resource management plan addresses the key themes of resource constraints as a result of climate change<sup>2</sup>, environmental protection of natural habitats and increasing demand due to a growing population<sup>3</sup>.

## Water Resource Management Plan

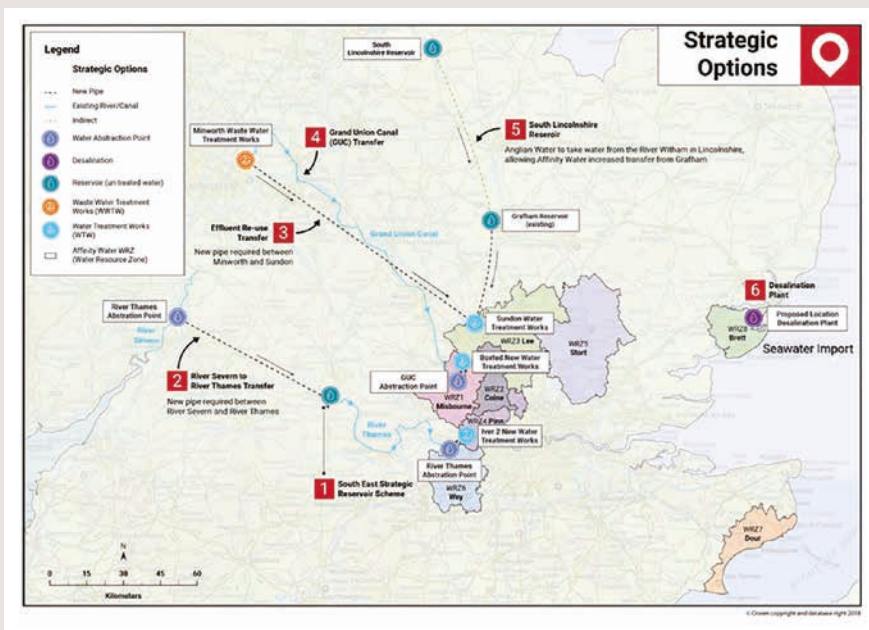
The water resource management plan is based on three key principles:

- ▲ Manage existing resources and develop strategic options to secure additional water supply;
- ▲ Partner with neighbouring water companies to form part of a coherent strategy in each region; and
- ▲ Enhance ability to cope with different types of weather and climatic events including drought.

<sup>1</sup> As reported by Affinity Water in its latest published accounts for the year ended 31 March 2019

<sup>2</sup> The Affinity Water supply area is in one of the driest parts of the UK, receiving 33% less rainfall than average for the period from July 2016 to April 2017

<sup>3</sup> Population forecast to increase by 23% by 2045



Strategic supply options identified by Affinity Water



Affinity Water has identified a number of potential strategic alternatives, as shown on the chart to reduce its significant reliance on groundwater sources including:

- ▲ The development of a new strategic resource. The current preference is for a reservoir in Oxfordshire – the South East Strategic Reservoir Scheme, although the final choice of scheme depends on the findings of the ongoing assessment programme; and
- ▲ The expansion of its share of the Grafham reservoir in Cambridgeshire.

In addition, Affinity Water aims to reduce demand on its network through significant investment to reduce leakage.



Affinity Water invests in infrastructure to ensure efficient distribution of water to its consumers. It plans to spend c. £110m developing additional water treatment capabilities, including evaluating new strategic resources, that could provide up to an extra 100 million litres of potable water per day.

Affinity Water has identified potential supply transfer schemes as a means to secure additional water supply for customers within its supply area. For example, water from the Minworth Treatment Works via the Grand Union Canal could, if developed, supply Affinity Water’s central region with an additional 50 million litres per day.

Affinity Water plans to invest £59m in order to deploy meters across 80% of customer sites by 2025 and 90% of sites by 2045. Meters give customers the opportunity to reduce their costs if they use less water. It is estimated that the metering programme can deliver an 18% reduction in demand.



Affinity Water is also supporting and encouraging customer side demand management by providing and installing free water savings devices to metered customers as well as providing individuals with advice on how to reduce water consumption during their daily routine.

Affinity Water plans to spend c. £53m on projects to protect the environment and increase the region’s resilience to drought.

Affinity Water remains committed to restoring the natural flow of chalk streams and creating a sustainable habitat for life within and surrounding its chalk streams. For example, in partnership with the Environment Agency, the Luton Lea River Catchment partnership and Luton and Dacorum Borough councils, Affinity Water completed restoration projects at three chalk streams in 2019, which reduce flooding and promote biodiversity, including native species of plant and wildlife.

The Water Resource Management Plan prioritises water supply solutions with the focus on sourcing water from rivers and transfer of water via canals instead of water from chalk catchments.

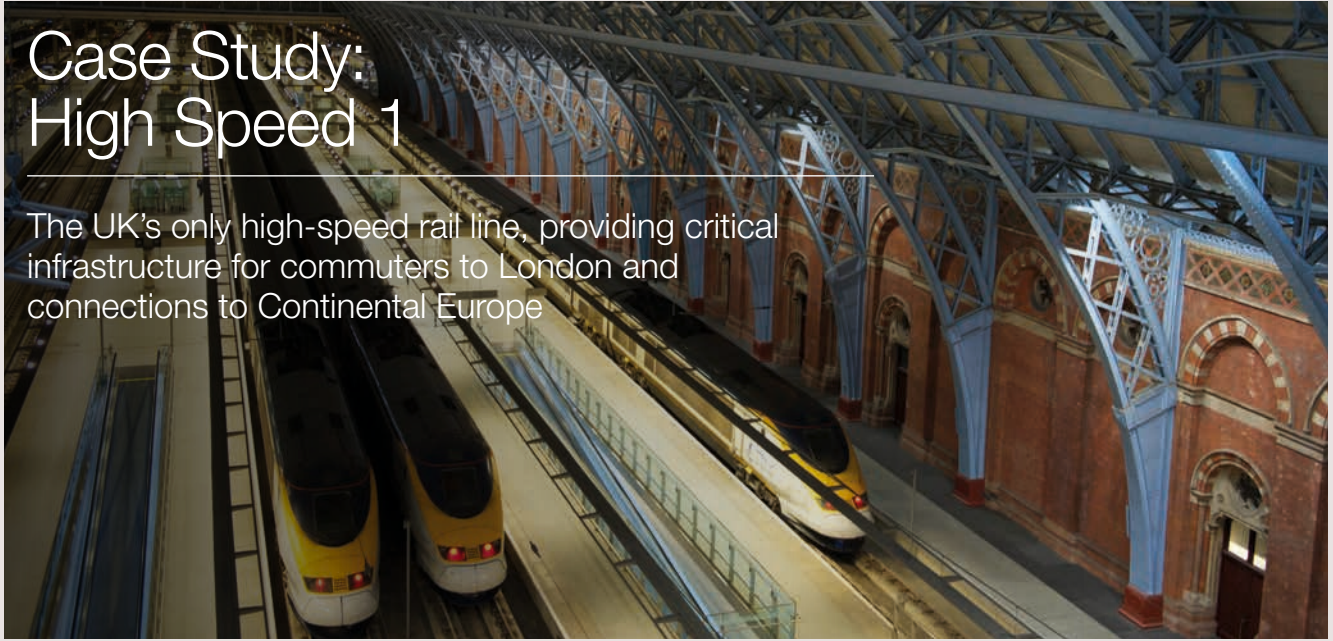



**Links**

- <https://www.affinitywater.co.uk/>
- [https://www.affinitywater.co.uk/docs/corporate/plans/water-resources/latest/Draft\\_Final\\_Water\\_Resources\\_Management\\_Plan\\_2019\\_Published\\_June\\_2019.pdf](https://www.affinitywater.co.uk/docs/corporate/plans/water-resources/latest/Draft_Final_Water_Resources_Management_Plan_2019_Published_June_2019.pdf)

# Case Study: High Speed 1

The UK's only high-speed rail line, providing critical infrastructure for commuters to London and connections to Continental Europe



## Key Facts<sup>1</sup>

109km

of track infrastructure connecting the UK to Europe

26m

journeys on the network in 2018

c.75k

train services per annum

£400m+

in economic benefits to the UK and Europe annually

c.60k

short haul flights annually; equivalent carbon reduction

47k

households established in HS1 catchment area outside London

## Overview

High Speed 1 ("HS1") is the UK's only high-speed rail line running 109km from St Pancras International to the Channel Tunnel that connects the UK with France. HS1 operates, manages and maintains the track and four stations along the route, including St Pancras, under a 30-year concession with the Department for Transport (DfT) through to December 2040.

HS1 generates income from track access charges from domestic and international train operating companies and from retail and car parking at stations. The Project benefits from both demand risk<sup>2</sup> mitigation and inflation-linked tariffs. Major maintenance and asset renewal are regulated with the costs ultimately passed through to the train operating companies.

Eurostar services have been operating on HS1 since 2007, while domestic high-speed services under the Southeastern Highspeed brand became fully operational in December 2009.

In 2019, HS1 commissioned an impact study, undertaken by a third-party consultant: Steer. The report can be downloaded from the link on the next page and data from the report has been used throughout this case study.

<sup>1</sup> <https://highspeed1.co.uk/media/vemkxmot/delivering-for-britain-and-beyond-the-economic-impact-of-hs1-march-2020.pdf>

<sup>2</sup> As measured by train paths along the line

HS1 generates economic growth. HS1 supports more than £400m of UK and European economic benefits per year compared to £312m per annum in costs borne by the train operating companies. The project, which cost £5.8bn to build, has been found to have delivered cumulative benefits of £4.5bn in the 16 years since the first section of the line opened. The majority of this benefit is derived from significantly improved productivity improvements for international customers as well as shorter travel times for the 11 million international and 15 million domestic passengers that use HS1 each year.



The 11 million international travellers each year via HS1 spend £2bn in the UK economy annually, supporting c. 3,600 jobs in businesses that benefit from this spending.

HS1 creates employment opportunities. 400,000 workers in Kent now live within a one-hour commute to central London, ensuring greater access to employment and, for London's labour market, access to an additional 63,000 highly skilled individuals.

HS1 creates sustainable communities through improved connectivity. The provision of a high-speed service into Kent has been transformative. HS1 has reduced the travel time for the 90km train journey between London St Pancras and Ashford (Kent) to only 37 minutes, compared to the 84 minute journey on the non-high speed London route. The 12% year-on-year annual growth for domestic journeys in the six years between 2010 – 2016 is testament to the value that commuters, business travellers and regional tourists place on services provided on the HS1.



Internationally, the 109km rail line enables train operating companies to deliver passengers between central London and Paris in only 2 hours and 20 minutes, a saving of 33 minutes compared to the old Waterloo line.

HS1 reducing net carbon emissions. Train travel performs an important role in the decarbonisation agenda. In the UK, HS1 reduces net emissions which are equivalent to removing c. 6,000 cars from the road each year. Additionally, for international travellers the transition away from air travel reduces annual emissions by the equivalent of 60,000 short haul flights each year.



## Links

<https://highspeed1.co.uk/>

<https://www.gov.uk/government/organisations/department-for-transport>

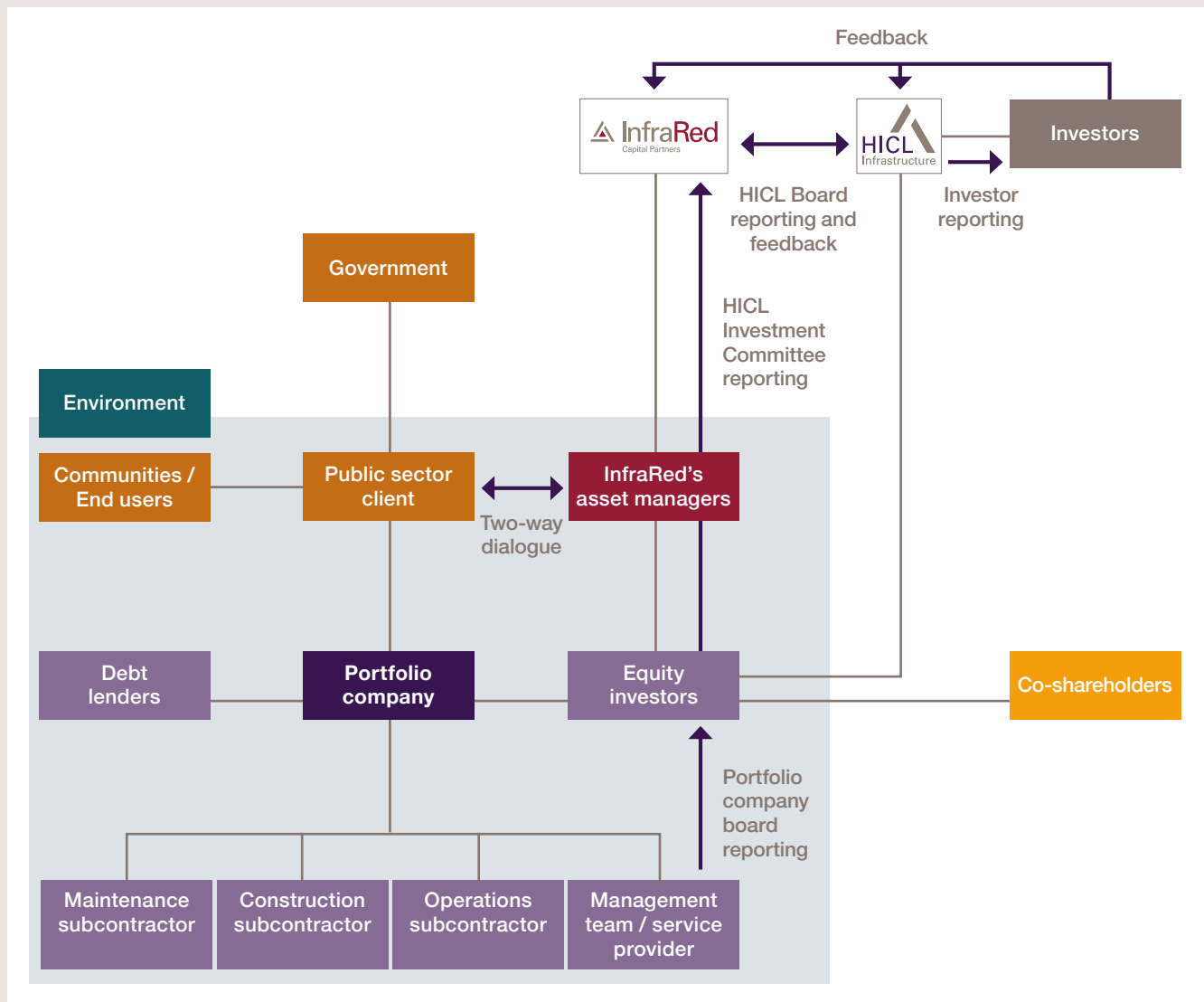
<https://highspeed1.co.uk/media/vemkxmot/delivering-for-britain-and-beyond-the-economic-impact-of-hs1-march-2020.pdf>

# Case Study: Stakeholder engagement

Key stakeholder relationships critical to ensuring successful management of HICL's portfolio



## Portfolio company stakeholders





## Overview

HICL has a diversified portfolio with respect to geography, operational status, revenue risk, sector and asset complexity. In order to continually improve its strategies to preserve and enhance both shareholder and stakeholder value, the Investment Manager has evolved its asset management strategy specifically around four key initiatives:

- ▲ Stakeholder mapping and strategic engagement;
- ▲ An industry knowledge centre;
- ▲ Database of project history; and
- ▲ Critical issue management framework.

## Stakeholder mapping and strategic engagement

Efficient and effective engagement with key stakeholders is crucial to the successful, long-term management of HICL's assets. In partnership with the project / business management teams, the Investment Manager has developed plans to assist in enhancing interactions with key stakeholders across the projects and businesses within the HICL portfolio. InfraRed has utilised such stakeholder engagement plans across the portfolio.

The stakeholder engagement plan is based on three pillars:

- ▲ Identification of key stakeholders to identify the most effective routes for stakeholder communication.
- ▲ Analysis of the relative level of authority and interest each stakeholder has in each project. The project / business management teams also assess the strength of relationships and articulate the key routes to resolution of project-related issues prior to enforcing contractual measures.
- ▲ Using a meeting efficiency framework that includes key items such as meeting agenda, roles and responsibilities, venue and the process taken to resolve project-related issues. The Investment Manager's tool assists the project / business management teams in streamlining meetings and to ensure relevant personnel are included.

## Industry Knowledge Centre

As a responsible investor, HICL is committed to ensuring the best-practice approach is adopted for the management of its assets. The Investment Manager has partnered with HICL's project management teams to develop a database: an encyclopaedia for project-related issues. The database is kept up-to-date with industry alerts such as the UK government's guidance with respect to cladding, issued as a result of the fire at Grenfell Tower. Best-practice guidelines are developed, and lessons are learned, from both within HICL's portfolio of assets and the portfolio's management service providers who altogether manage a portfolio of over 400 assets<sup>1</sup>.

## Database of project history

HICL is committed to maintaining a successful partnership with its public sector clients. On behalf of HICL and its stakeholders, the Investment Manager has developed a database which captures important events during a project's life, which includes for example, details of planned maintenance undertaken, ESG initiatives, and key lender interaction.

The portal can be made available to a range of stakeholders, including public sector clients. This ensures the retention of institutional knowledge over the long term partnerships typical of infrastructure projects, including when key individuals change or new project parties become involved with an asset.

## Critical issue management framework

The Investment Manager is committed to a culture of continuous improvement by distilling and leveraging the collective experiences of InfraRed's team and partners to the benefit of project stakeholders. This is especially vital in the context of critical issues affecting the portfolio. A framework has been developed by the Investment Manager to support proactive action by providing support and resources to tackle critical project-related issues. The framework is based on three key initiatives:

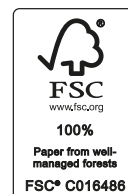
- ▲ An online critical issues toolbox: a consolidated resource of experience-based resolution strategies.
- ▲ A critical issues forum: supporting communication across InfraRed's team of experienced asset managers to support development and deployment of issue resolution strategies and tactics.
- ▲ Training: tailored workshops and seminars to support the development of InfraRed asset managers.

<sup>1</sup> Includes HICL projects

This document is printed on material derived from sustainable sources. Both the manufacturing paper mill and printer are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified. CPI Colour is also a Carbon Neutral Printing Company and reduces its CO2 omissions to net zero in accordance with The CarbonNeutral Protocol. This carbon offsetting supports the Uchindile Mapanda reforestation programme in Tanzania, an environmental project to establish commercial forests at two locations in Africa.

All inks are vegetable based.

This report is recyclable and biodegradable. If you have finished with this document and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste.







Delivering Real Value.

**Registered Address**

HICL Infrastructure PLC  
(Registered number: 11738373)

12 Charles II Street  
London  
SW1Y 4QU

T +44 (0)203 818 0246  
E [info@hicl.com](mailto:info@hicl.com)  
W [hicl.com](http://hicl.com)