ESG – Website disclosure

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Any additional information may be obtained from Luc van Rooijen (T+32 (0) 2 229 52 30).

Contents

1. Introduction 4
2. Environmental or social characteristics of the financial product 4
3. Investment strategy 5
4. Proportion of investments 6
5. Monitoring of environmental or social characteristics 6
6. Methodologies for environmental or social characteristics 6
7. Data sources and processing 7
8. Limitations to methodologies and data 7
9. Due diligence 8
10. Engagement policies 8
11. Designated reference benchmark 8

1. Introduction

The Sustainable Financial Disclosure Regulation (SFDR) set up by the European Commission, obliges fund managers to make sustainability-related transparency and disclosure requirements. These ESG disclosures inform investors on how sustainability risks are considered in the investment decision-making process.

In this respect EPICo² has decided to promote, among other characteristics, environmental and/or social characteristics within the meaning of article 8 of the SFDR. The fund has incorporated an ESG policy containing the details on how sustainability characteristics are integrated into investment decisions. This includes a thorough screening of investment opportunities, developing an exclusion list with sectors and activities in which it will not invest and adhering to ESG criteria.

The ESG performance is measured by the proportion of funds invested in companies which impact on the most relevant sustainability factors is deemed positive or negligible by the fund manager.
This document provides information as set out in article 10 of the SFDR and the correspondent Regulatory Technical Standards (RTS). The purpose of these disclosures is to provide end investors with clear, concise, and prominent sustainability-related disclosures about EPICo².

2. Environmental or social characteristics of the financial product

The fund promotes environmental or social characteristics within the meaning of article 8 of the SFDR. The promotion of environmental and social characteristics are built on an exclusion list of sectors in which the EPICo² shall not make any investment as their activities are not aligned with the objectives of the fund. The exclusion list is detailed in the ESG policy, which is available on demand. The fund invests in a diversified and balanced portfolio of European greenfield and operational infrastructure projects. EPICo² will make investments on an infrastructure (sub)sector agnostic basis, but around themes with strong policy support, such as (but not limited to) energy transition, digital transformation and transport. As part of the portfolio monitoring, the ESG performance of each infrastructure asset and compliance with the Exclusion List in particular, is reviewed at least once a year. In the event of any improvement or deterioration in ESG performance, the fund manager brings this to the attention of the ESG Responsible.

The fund has decided not to consider the principal adverse impacts of its investment decisions on sustainability factors. The reason for this decision is twofold: (i) the regulation being very recent at the time of the inception of the fund, with secondary and follow-up regulations still in process of being drafted, and (ii) a primary assessment that the target investees of the fund would not possess sufficient information in order to make an informed consideration in this regard.

3. Investment strategy

To ensure a set of minimum environmental and social standards, potential investments are screened against an exclusion list that includes controversial economic sectors, prohibited practices, and specific activities with high environmental and social risks and impacts. While the full exclusionary list can be found in EPICo²'s ESG policy, examples of restrictions include investment in companies involved in economic sectors and activities related to: palm oil and wood pulp, unconventional oil & gas, mining, non-compliance with human and labor rights, unsustainable fishing, producing or trading hazardous substances, non-compliance with Basel Convention regarding cross-border trade in waste, producing or trading endangered species, tobacco, gambling, pornography or prostitution, involvement in tropical natural forest or high nature forest degradation. Moreover, it also restricts investments in companies which have shown unethical behavior or that have deliberately and repeatedly violated national or international laws and have obtained criminal convictions.

Furthermore, EPICo² will take into account ESG criteria when making investments. Any potential investment by the fund will be subject to an ESG questionnaire which will identify material ESG issues, including sustainability risks, that could affect a decision on a potential new investment. If the investment decision is positive, an ESG assessment will take place. KPI's will be defined and monitored in an adequate way. Industry-specific ESG guidelines (e.g. the EU Taxonomy Regulation) will also be identified as part of the pre-screening in order to assess relevant ESG criteria.

In consideration of environmental and social characteristics, EPICo² set up an investment strategy that aspires to reducing ESG risks and looks at the contribution of the investments to building a better future and that fit today's and tomorrow's market expectations.. The fund will select infrastructure assets based on multiple ESG criteria such as:

- Environmental criteria: sector risks related to the environmental footprint of operations, physical and transition risks related to climate change management and materiality of controversies related to environmental issues and the contribution of products and services to environmental challenges. By considering these environmental criteria in the investment decision process, the fund may promote, among others, preserving nature and biodiversity, promoting efficient water management, minimizing energy consumption and produce renewable energy, offering access to public transport and alternative mobility, using responsible and sustainable materials and/or managing waste (construction and maintenance).

- Social criteria: sector risk associated with health and safety, environmental and social risks in the supply chain, social climate, management of quality and risks associated with consumer's safety, management and materiality of social/society-related controversies, contribution of products and services to societal issues. By considering these social criteria in the investment decision making process, the fund may promote, among others, guaranteeing a safe and healthy work environment, access to indoor and outdoor qualitative spaces, incorporating aesthetics, heritage and culture and/or stakeholder engagement and acceptance.

- Governance criteria: it is standard practice to invest in portfolio companies which comply with the customary practices of good governance, which are related to the governance criteria as set out in the fund's ESG policy. These may include, among others, provisions that ensure compliance with local legislation, respect for local accounting and tax principles, compliance with rules on the prevention of money laundering and terrorism financing, avoidance of conflict of interests, guaranteeing data integrity and protection.

These selection criteria are assessed and evaluated by the investment committees of the fund manager as part of the investment decision process.

4. Proportion of investments

The fund does not commit to making sustainable investments. At least 75% of the committed funds shall be invested in portfolio companies that correspond with the ESG Criteria.

5. Monitoring of environmental or social characteristics

Based on the inherent characteristics of each investee (potential) investment (such as geography and economic activities) and responses to the ESG questionnaire and annual ESG assessment, the fund manager selects ESG criteria and sustainability indicators to monitor throughout the investment lifecycle. This is done in order to monitor and influence a positive trajectory of the most relevant ESG indicators for each specific company.

As part of the portfolio monitoring, the ESG performance of each infrastructure asset and compliance with the Exclusion List in particular, is reviewed at least once a year. For this process, the investment companies will be requested to update their answers to an annual ESG assessment (if applicable) and update the identified KPI data. The fund manager evaluates potential improvement or deterioration in ESG performance. In the event of a deterioration of an ESG aspect that is contrary to the fund's ESG exclusion list or that is likely to have an adverse impact on the credit quality or the value of the portfolio investment, the competent investment committee may validate, at its discretion, corrective measures aimed at protecting the fund's capital and its reputation. Corrective measures may take the form of stricter monitoring of the investment together with a remedy period which provides the infrastructure asset time to rectify the situation or a disposal of the asset on the secondary market.

6. Methodologies for environmental or social characteristics

To measure how the social and environmental characteristics promoted by the financial product are met, the following methodologies are employed:

The fund manager uses the responses to the annual ESG assessment to identify the sustainability factors that are most relevant for a particular potential portfolio company, considering the potential for negative and positive impact of the company on those factors. If deemed necessary, engagement meetings are held throughout the process.

The fund manager uses its own professional judgement based on the information provided by the investment company, data collected through desk research and its experience in similar undertakings. The assessment is then used to guide the investment decision.

7. Data sources and processing

To obtain the necessary data and information, the fund manager needs to assess whether a (potential) portfolio company corresponds with the environmental or social characteristics promoted by the fund, the following sources are used:

I. The investment team's and/or investment company and potential investment company's responses to the:
   i. ESG questionnaire
   ii. In-person pre-investment discussions with management and/or sponsor(s) based on the data collected and response to the ESG questionnaire[1]
   iii. Annual ESG discussion with management and/or sponsor(s) to discuss progress on ESG opportunities and the status of ESG risks

II. Data collection, including a review of publicly available documents and internal documents shared by the (potential) investment,

III. It is at the discretion of the competent investment committee to require a third party ESG audit (the costs of which shall be borne by the fund) considering the pre-investment and annual ESG assessment

The fund manager takes all necessary while reasonable measures to ensure and validate the quality and accuracy of data. It can request additional documents or justifications from third parties to detail their own understanding and assessment.

Data used for the assessment are based on information provided by the investment.

8. Limitations to methodologies and data

The majority of ESG-related information is gathered from investments, through the ESG questionnaire and ESG assessment, or subsequent reporting on identified parameters, not automatically being subject to independent auditing. This means that the veracity of information cannot be completely guaranteed and is left to the responsibility of the investment.

Despite the fact that most investments are made in infrastructure companies, differences in business models, economic activities, and companies' sizes create challenges in data collection and processing and, consecutively, challenges in the assessment of the subjective concept of "positive contribution to the ESG factors", hereby address as an environmental and social characteristic of the product. To address part of the problem, the fund manager has opted to assess this impact through a qualitative assessment, based on answers to the ESG questionnaire and ESG assessment, taking into consideration factors such as the ones mentioned above.

[1] Aim is to better understand the attitude of the management and/or sponsors towards ESG matters and obtain further input to identify ESG risks and opportunities and their respective materiality.

9. Due diligence & monitoring

As a quality check, the fund manager reviews the consistency of data provided by pre-investment and annual ESG assessment. Furthermore, a third party ESG audit can be requested if deemed necessary.

In the due diligence phase, material sustainability risks are identified. Once the investment opportunity is approved, an annual ESG-assessment will be performed, taking into consideration factors such as the ones mentioned above.

During the annual ESG review, the investment team assesses the progress on the defined focus ESG KPI's. The investment team makes sure that all investments are aligned during the ownership period with the environmental and/or social characteristics that the fund promotes. In case objectives are not met, corrective measures may be required.

10. Engagement policies

There is currently no formal engagement policy, but the engagement is part of data collection and dialogue with the investment, as described in the previous sections.

11. Designated reference benchmark

No reference benchmark has been designated.

EPICo II CommV
Oude Graanmarkt 63
1000 Brussel
T 02 229 52 30
F 02 229 52 31