Realfin-GIIA
Global Infrastructure ESG Report
FY 2023

REALFIN

GIIA Global Infrastructure Investor Association

Contents

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About Global Infrastructure Investor Association

GIIA is the membership body for the world's leading investors in infrastructure, and advisors to the sector, who collectively represent USD 2 trillion of infrastructure assets under management across 70 countries. Our members are investing today to provide the smart, sustainable and innovative infrastructure needed for our communities and economies to thrive. GIIA was established in 2016 to improve engagement between members, politicians, policymakers and regulators with the aim of increasing much needed investment in infrastructure. Learn more at giia.net

Foreword

Foreword by **Jon Phillips**, Chief Executive, Global Infrastructure Investor Association

As we reflect on 2023, it emerges as a formidable year, not only for ESG fundraising but also for infrastructure and private markets as a whole. We navigated through high inflation rates, labour shortages, political turmoil and market underperformance, which collectively pulled down infrastructure fundraising to levels not witnessed in a decade. ESG-related infrastructure funds amassed USD 36 billion across 51 funds in 2023, lower than the previous year. Nonetheless, the long-term trajectory is upward. As outlined in the report, ESG's share of infrastructure fundraising increased by 10% over the past five years.

The US remains an anomaly in global efforts to bring greater clarity to ESG investment, having deferred its disclosure decisions until 2025. The polarised stance on ESG and the consequent anti-ESG legislation continue to impact pension funds and states, elevating the costs of bond recertification.

Recent studies conducted in Oklahoma reveal that these anti-ESG policies forced municipalities to incur an additional USD 187 million in borrowing expenses. Similarly, Indiana discovered that divesting from managers who consider ESG factors would entail a USD 10 billion burden over a decade, borne by pension fund trustees and taxpayers. Legislation in Texas yields similar effects, resulting in increased borrowing costs.

The potential spillover of such actions into European markets remains uncertain. We have observed some examples of politicisation of net-zero policy in the UK, and a focus on energy security after the outbreak of the Ukraine war in the EU, but the overall trajectory seems positive. In fact, this May, the UK will unveil its anti-greenwashing rules, aimed at simplifying disclosures for investors and the EU is similarly looking to improve alignment and classification through SFDR reforms.

While new regulations are welcomed, particularly when they offer clarity and alleviate reporting burdens, global managers are teetering on the brink due to the substantial regulatory and reporting pressures they face. The new requirements under CSRD, CSDDD and many, many more, coupled with the lack of high-quality data, suggest an impending breaking point.

Data quality issues become particularly evident when discussing Principle Adverse Impacts (PAI). According to a PwC survey, 40% of managers did not consider PAI in their sustainable investment decision-making due to the lack of non-financial data and uncertainties in the data collection process.[1] PAI and SFDR, in general, could have unintended consequences for emerging market investments, as many emerging market assets fall short of the stringent criteria for sustainable investment. Emerging markets lag behind developed economies in social and carbon/energy-related indicators, rendering them ineligible for funds targeting EU SFDR articles. However, revisions expected in 2024 aim to address this issue.[2]

Beyond the core markets, we witness promising strides in integrating ESG considerations into financial regulation. The unveiling of Singapore's Asia taxonomy for sustainable finance at COP 28 signifies a pivotal moment. The taxonomy employs the transition category to mitigate greenwashing risks and ensure that brown-to-green activities receive recognition.

Jon Phillips
Chief Executive
Global Infrastructure Investor Association

1. PwC. 2024. "Mind the Gap: Principal Adverse Impact Statements in the AWM Industry." Accessed April 20, 2024. https://www.pwc.lu/en/sustainable-finance/docs/pwc-mind-the-gap.pdf

2. MSCI. 2024. "Sustainable and Climate Trends to Watch 2024." Accessed April 20, 2024. https://www.msci.com/documents/1296102/42241274/2024++MSCI+Sustainability+and+Climate+Trends+to+Watch+Paper+Final+.pdf?3

Reframing deals for sustainable infrastructure

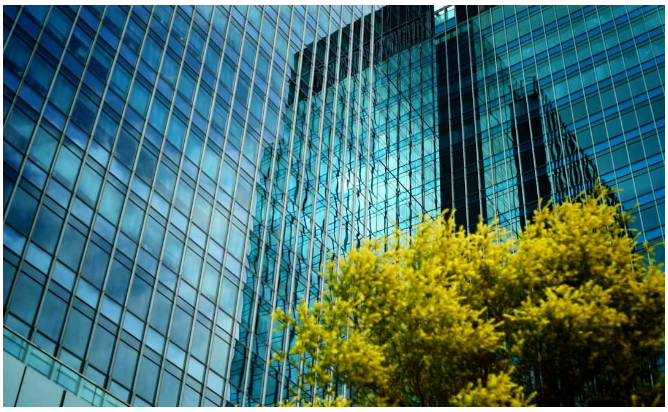
This year started with several significant infrastructure deals and a market sentiment that more M&A could be on the cards. After a quiet 2023, many asset managers and investors have focused in on three themes: digitisation, decarbonisation and deglobalisation.

These early 2024 deals have signalled that there is value in delivering operational changes that address these themes and the underlying megatrends around:

- socio-economic change and opportunities in developing vs developed economies
- digital disruption and the role of AI
- reframing of global supply chains, local capacity building and the role of geopolitics
- the future of finance, including digital currencies, access to credit and the growth of money-market funds
- energy transition as both a brown-to-green opportunity as well as significant new infrastructure for decarbonisation (with all the new raw materials that needs)

Investing in actions

Financing the transformation of infrastructure is now influenced by more operational language, with a shift towards framing deals in terms of transition and sustainability, moving beyond the contentious term "ESG", which has been perceived negatively in some markets. There's a greater emphasis on impact, outcomes, and commercial returns.



A positive move here is to reframe sustainability at a project level, highlighting how it impacts commercial aspects and outcomes. For instance, a wind farm in Texas can be presented not solely as a "green" strategy but as one providing affordable energy, reducing credit risk, lowering insurance premiums and creating jobs. This approach to sustainability is more manageable at a project level and aligns with current thinking and planning around the future of infrastructure and industrial clusters.

Christopher Reeves is an Advisor with Field Intelligence

Examples such as the UK's Humber Cluster[1] demonstrate how decarbonisation can drive new economic zones, or equally where solar or wind developments can anchor new energy-intensive industrial zones in developed or developing economies.

There are ample opportunities to generate profit from both mitigation and adaptation to address the energy transition, through creating new infrastructure and updating existing. Addressing concerns of greenwashing, it's encouraging to see initiatives like the OECD working with both FAST-Infra Group[2] and Blue Dot Network[3] to drive validation of action at the project level.

> "There are ample opportunities to generate profit from both mitigation and adaptation to address the energy transition, through creating new infrastructure and updating existing."

Incentives, risk and time horizons

In a year of major elections that will see over four billion people around the globe going to the ballot box, the politics of infrastructure and how to fund it is clearly in discussion and campaigns. Examples such as the US Inflation Reduction Act (IRA) and time-bound tax incentives illustrate how governments look to blending finance with politics to unlock more than USD 400 billion of available infrastructure investment funds, meanwhile considering the impact of an energy transition to tackle climate change.

The Energy Transitions Commission[4] think tank recently highlighted that while there is a significant USD 3 trillion investment needed for power, buildings and transport, there are well over USD 300 billion in other investments that require government support to ensure they are economically viable, where private capital is reluctant to be seen as "first loss".

The role of government

There is a role for government to help enable economic tipping points for new technologies that support this transition. Looking at the operational side of technology, government incentives, such as the various parts of Section 45X of the IRA, nuances in Europe's Net-Zero Industry Act or Canada's Clean Technology Investment Tax Credit are helping to derisk investment in earlier-stage technologies. This is no longer "woke" but commercial, with often some further upside. For some solutions such as solar, the discussion is moving to removal of subsidies as being unnecessary given the dramatic reduction of the cost base.

For many investments these risks are being managed with adjustments on the offtake timeline, yield profile, debt horizon and looking at the capex / opex plans. Addressing these project finance risks, at the next COP in Baku, set to take place in November, the agenda be looking at government-enabled finance that will play into sustainable infrastructure deals, covering new sources of finance, concessions, debt relief and reform of the development banks.

> "Having a social licence plays into permitting timelines, access to finance, insurance, project management, credit risk and an ability to attract talent as well as new business partners."

Customer and community value

Customer and community value

Investors have often felt they are bearing the brunt of delivering on the social licence-to-operate, and there are lessons to be learnt from mining, energy and resources companies delivering long-term, complex infrastructure requiring buy-in from communities and users of the infrastructure.

Having a social licence plays into permitting timelines, access to finance, insurance, project management, credit risk and an ability to attract talent as well as new business partners.

Practical strategies to mitigate risks and foster community buy-in include reframing sustainability discussions within investment committees. For example, in a USD 3 billion project where the combined risks from planning, logistics, local supply chain and potential industrial action are seen as USD 300 million, by proposing a USD 20 million social initiative to reduce this risk to USD 100 million, the discussion is moved from ethics to finance and real impact.

What next

The sustainable infrastructure investment landscape in 2024 is emphasising actions to deliver impact, outcomes and commercial returns at the project level. Governments are playing a crucial role in incentivising investment through policies and tax incentives, particularly in the context of energy transition.

Meanwhile, investors are recognising the importance of building community buy-in and addressing social concerns to mitigate risks, attract talent and partners. Overall, there is a growing recognition that integrating actions (and accountability) early into infrastructure investment not only aligns with environmental and social goals but also opens significant financial opportunities in the evolving global landscape.

1. Humber Cluster Industrial Zone: https://www.humberindustrialclusterplan.org/
2. FAST-Infra Group: https://fastinfragroup.org/
3. Blue Dot Network: https://www.bluedot-network.org/
4. Energy Transition Commission: https://www.energy-transitions.org/

03
Realfin Market Analysis

Realfin market analysis

Global private infrastructure ESG fundraising reached its lowest point in three years in 2023 amid market and political shifts, declining by 53.3% on the previous year to USD 36.62 billion, while remaining high as a proportion of overall infrastructure fundraising. Even so, the number of ESG-related vehicles reaching final close grew, rising by 13.3% year-on-year to 51.

Pointing to a potential longer-term upward trend, ESG-related fundraising was 10.2% up on the pre-pandemic five-year average, and remained 20% higher as a proportion of overall infrastructure fundraising on the same basis.

Despite the decline in infrastructure ESG fundraising, the coming year is poised to be one in which ESG and climate reporting obligations become more structured, comprehensive and globally aligned, driven by evolving regulations and stakeholder expectations in the US and Europe.

USD 36.62 bn

Unlisted infrastructure ESG fundraising in 2023

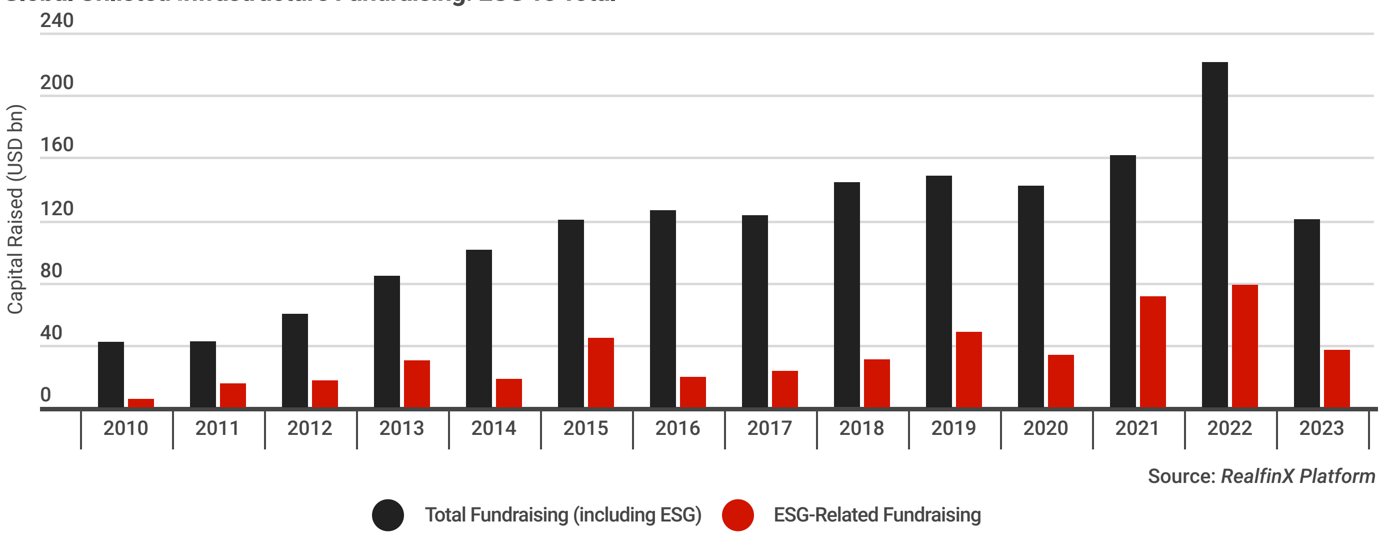
51

Number of ESG funds reaching final close

The first quarter brought several developments for European infrastructure fund managers tasked with complying with Sustainable Finance Disclosure Regulation (SFDR) rules as well as reviewing Corporate Sustainability Reporting Directive (CSRD) reports for investors.

They are actively preparing for the first round of reporting due with CSRD in 2025, even as the SFDR is undergoing revisions, with feedback from the December consultation on "SFDR 2.0" expected in the second quarter.

Global Unlisted Infrastructure Fundraising: ESG vs Total



Source: *RealfinX Platform*

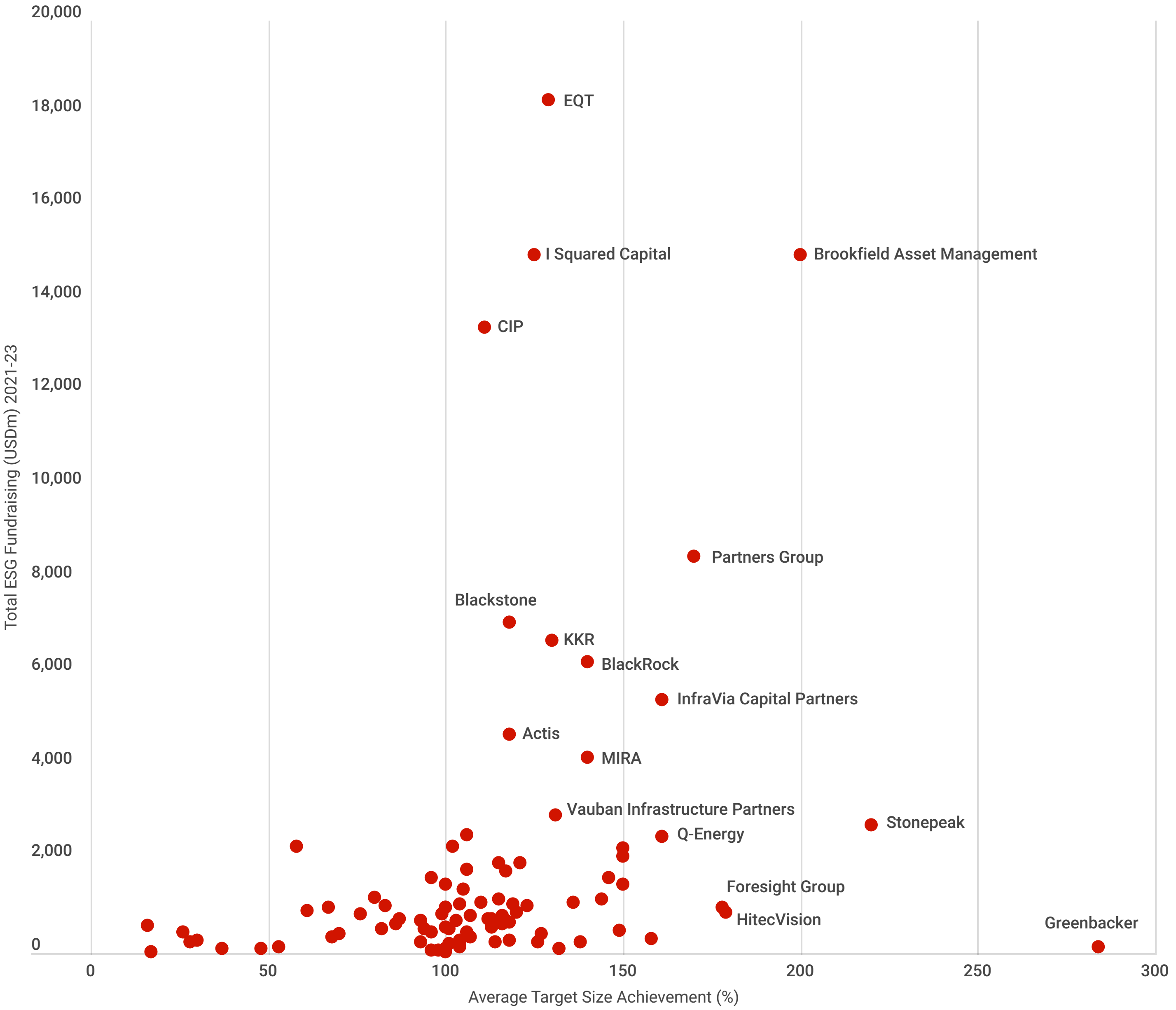
For private infrastructure fund managers in Europe, the focus is on aligning data review processes, adding external assurance and verifying whether existing stock is within scope to meet the ESG labelling criteria of the moment. Firms must also cope with the new demands that ESG strategy is making of internal ESG teams' and senior management's time. Combined, these factors mean that new ESG-labelled funds may be getting less attention than in the past.

In April, the European Parliament adopted the proposed Corporate Sustainability Due Diligence Directive (CSDDD). The regulation will then need to be transposed into national law in EU states, giving larger companies an active duty to mitigate adverse impacts of activities on the environment and human rights. The upshot will be greater exposure to civil liability for the affected companies, including those in construction and extractive industries.

Methodology Note

Realfin's Financial Data Analysts obtain ESG designations at fund level through various sources including direct communication with and data submissions from fund managers and extensive secondary research. At the fund level, Realfin records ESG attributes including EU SFDR Article 8 & 9, UN SDG, Impact Investing, Climate Impact and general ESG-relevance. New funds coming to market are assessed as they are launched, while funds' designations may also be removed where relevant.

Global Unlisted Infrastructure ESG Fundraising (2021 - 2023)



Source: *RealfinX Platform*

Looking to the US, where ESG has become a highly politicised issue, new regulation is aiming to standardise ESG reporting practices. The decision by the US Securities and Exchange Commission (SEC) in March 2024 to require the largest US-registered public entities to report more ESG-related data sets a relatively low bar for disclosure.

The SEC in early April agreed to stay the rule, however, pending the review of challenges in six federal appellate courts. The stay, expected to last beyond 2025, delays the first disclosures and hampers the expansion of climate disclosure for US funds. First posed in draft form in 2022, the SEC climate-related disclosure rule requires larger listed companies to report to investors their data on their "material" Scope 1 and 2 emissions and climate-related risks, and any processes they use to identify, assess and manage those risks. The rule could easily see companies narrowly interpret what they deem to be material, and stakeholder litigation could increase accordingly.

Listed investment firms will need to weigh and perhaps disclose on how climate-related events could impact their investments, as well as disclose their transition plans intending to cope with those risks.

For private funds domiciled in Europe, where an estimated 16% of private assets' emissions are disclosed according to MSCI, green investors already push for Scope 1 and 2 emissions reporting related to portfolios.

Managers are also due to report on Scopes 1, 2 and 3 data on investee companies under the CSRD as well as materiality data that is far wider in scope than that which is defined by SEC rule. However, for the SEC-regulated GPs that don't already report their Scopes 1 and 2 data, it is likely that the new rules could still affect them, both in terms of how they report to investors and how they approach IPOs for larger portfolio companies.

Sponsors would need to be eagle-eyed about portfolio companies' publicly announced climate and transition statements. If companies can't back up their promises, then GPs should ask them to adjust or abandon them before going public. Investors may respond to the burdens of disclosure by taking fewer assets public through IPOs, and by continuing to pour increased investment into private funds.

Given the political backdrop in the US, it is becoming increasingly clear one of the world's most influential regulators wishes to bring standardisation to climate disclosure. This will impact public markets and private markets alike as data becomes more ubiquitous and the expectation to disclose material information filters through. The potential addition of Scope 3 emissions reporting, mulled in a draft of the SEC rule, would have impacted private companies by capturing Scope 3 data on private companies in listed companies' supply chains.

Expanding reporting burden

One of the key obligations for asset managers in the EU under SFDR is the Principal Adverse Impact (PAI) statement, an annual statement asset managers must provide weighing how investment decisions affect sustainability, employees, human rights and corruption matters. PwC this year conducted analysis of PAI reporting covering two-thirds of the total 3,212 asset managers registered with either UCITS or Alternative Investment Fund licences with ESMA. The study revealed only one fifth (21.6%) issued a publicly accessible PAI statement, with only one fifth (21.9%) of those adopting a template prescribed within SFDR Level 2.

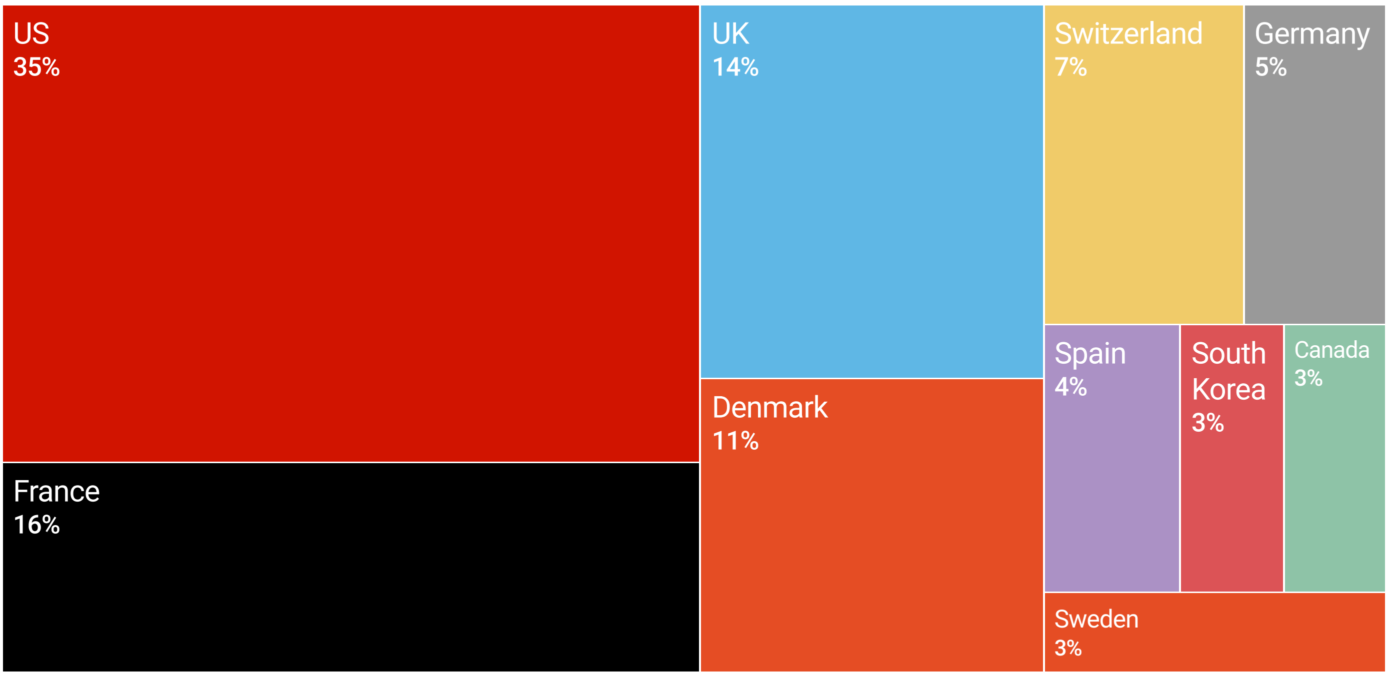
Furthermore, the PwC study found that nearly a quarter of asset managers were technically not in compliance with the regulations, having failed to publish either a PAI statement or any reason as to why they hadn't done so. An additional 7.5% had indicated they would disclose PAI data but were still not compliant with SFDR Level 2.

The study covered 2022, the first regulated reporting year, so improvements are likely to have been made since then, but it is a troubling sign that nearly 40% of asset managers did not consider the PAIs of their investment decisions on sustainability factors. The most common reasoning for this is that managers reported was insufficient non-financial data as well as uncertainties regarding the data collection methods required.

If data acquisition is an issue now, it will only become an even greater burden as ESG-linked regulation become mandatory or more companies come under the purview of existing mandatory disclosures.

Bringing matters to a head, the first CSRD deadline next year is imposing a significant data reporting burden for managers in the EU. Large EU companies subject to the Non-Financial Reporting Directive (NFRD), upon which the CSRD is built, must start to apply the 2023 European Sustainability Reporting Standards (ESRS) to provide disclosures starting in 2025 for the 2024 fiscal year. Large companies not currently subject to the NFRD will report in 2026 for the 2025 fiscal year. Non-EU companies that meet the reporting threshold will start reporting in 2029.

Top Infrastructure ESG Fund Manager Domiciles by Number of Funds - Five Years to 2023



Source: *RealfinX Platform*

As CSRD enters its first reporting year, many managers are working diligently to completely transform their reporting as it both expands to capture more investee companies, and, at the same time, becomes more rigorous relative to existing SFDR rules. for example, companies subject to the CSRD will have to report for the first time using ESRS. Handling data collected under ESRS is an immense undertaking for fund managers, one that sees ESG teams beginning to look more like IT teams.

Internally, it involves procurement of new kinds of data, transforming firms' data governance practices, creating controlled methods of data review and using new software for storing data. Meeting data reporting targets also involves working with internal advisors and external sustainability consultancies. For managers with many in-scope companies, it may seem like timelines are too short to build a comprehensive regime around new processes and technologies.

In addition, firms are racing to begin to comply with double materiality reporting in the first round of CSRD reports. Companies must report more comprehensive ESG narratives, for example in respect to the concept of double materiality - an assessment that includes not only an entity's impact on the environment but how sustainability issues may impact on performance, cash flow and cost of capital, among other factors. As firms prepare for these initial reports, they are holding board meetings with executives to discuss financial and ESG implications of data reported. This can mean time-consuming discussions with executives, heads of investor relations as well as internal finance and risk teams.

From 2025, independent third-party assurance for certain large or listed SME companies under CSRD is mandatory, and a higher level of assurance is required.

Managers see that there are advantages and disadvantages to requiring use of external consultants to collect data: smaller companies lack the resources to accurately report their own data, so quality may improve. However, using consultants requires time and resources. Among infrastructure fund managers, there is a feeling of wariness about potential exposure from old statements which were made in a less rigorous SFDR reporting environment. EU-based fund managers may be also feeling overwhelmed as they begin preparing for the January 2026 deadline under the CSRD to begin reporting on large non-EU-based companies with significant EU operations.

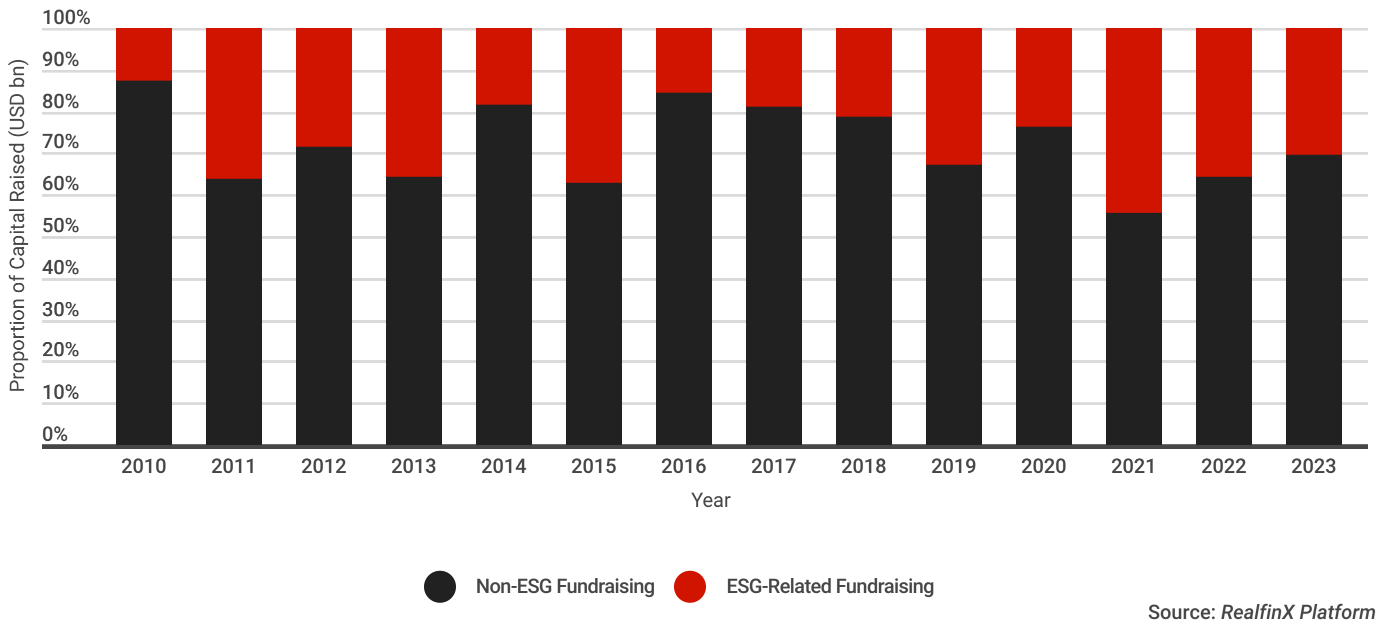
Conversely, some investors are looking forward to increased mandatory reporting under the CSRD rules. One investor in infrastructure with more than 10 companies in their portfolio in-scope of the CSRD said they see it as an opportunity to negotiate terms and incorporate sustainability into each investment.

Moving targets

While the broad ESG direction is now clearer, the pathways forward are not. It seems 2024 will be a year defined by more country-level ESGs reporting announcements, regulatory recalibration and political bartering.

European managers have since 2021 incorporated the requirements of SFDR into their fund mandates, however, aspects of the SFDR have proven problematic. Posing a particular hurdle is the market's treatment of Articles 8 and 9 disclosure requirements. While the purpose of both articles is to identify ESG and sustainable characteristics of investment funds, they have effectively been used by asset managers as product labels. In other words, there is a real risk investors perceive Articles 8- and 9-branded funds as guarantees of impact; they are not.

Global Unlisted Infrastructure Fundraising: ESG vs Non-ESG



Source: *RealfinX Platform*

The EU executive has subsequently held a consultation period for market feedback on whether to strengthen SFDR rules and eradicate the creeping spectre of greenwashing. There is a genuine chance the article system could be scrapped entirely.

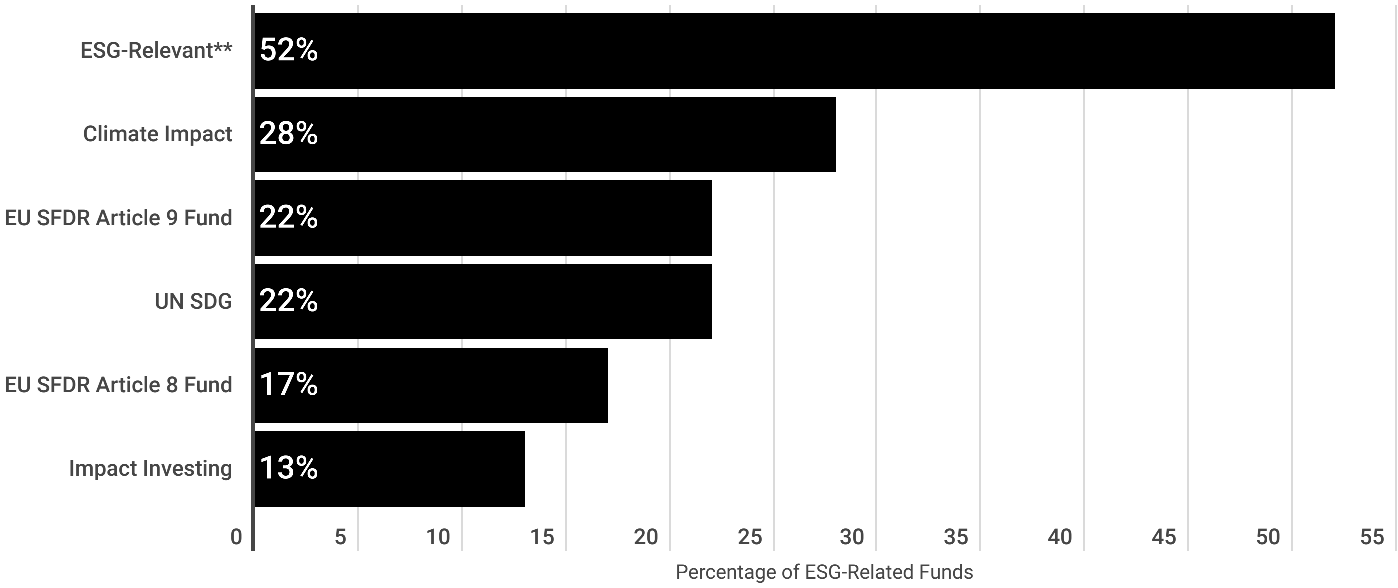
In launching the consultation, which closed in December, Mairead McGuinness, European Commissioner for Financial Services within the EU admitted that while Articles 8 and 9 of the SFDR were being used as de facto “product labels” this is likely the path forward following the establishment of numerous of national ESG and sustainability labelling schemes. For example, one is due to launch this year in the UK and the US has a developing ecosystem of rules for fund marketing with the adoption of the SEC "names rule" in 2023.

Marketing of green funds

The European Securities and Markets Authority published, in December, new marketing guidelines. ESMA requires that sustainability-related terms in funds’ names may only be used where the fund applies a minimum of 80% of its investments to meet the sustainability objectives, applies Paris-aligned Benchmark exclusions, such as fossil fuels, and invests “meaningfully” in SFDR-aligned investments.

Asset managers face the burden of having to analyse their products to meet the 80% minimum, which as some in the market have suggested, may be more feasible for equity and fixed-income portfolios than for multi-asset or less traditional portfolios.

Unlisted Infrastructure Fund ESG Designations - 2023*



* Sum of percentages is greater than 100% as ESG-related funds often fall into more than one ESG category.
** Private infrastructure funds that do not have a specific ESG label or category, but do explicitly and significantly incorporate ESG considerations, framewroks or methodology into the fund's investment decision-making.

Source: *RealfinX Platform*

As of the first quarter of the year, managers have continued to develop their reporting under the requirements of the original SFDR regime, which they have already incorporated into their working practices.

However, infrastructure investors generally want a labelling system that will set a level playing field and prevent some asset managers from blatantly capitalising on investors’ misinterpretation of Articles 8 and 9.

Accordingly, the SFDR's revision should improve the accuracy and transparency of labelling, while better identifying for managers which funds are in scope and what type of data should be collected.

The UK is following a similar trajectory to clarify the marketing of funds. There, the requirement to use voluntary labels that meet Sustainability Disclosure Requirements issued by the Financial Conduct Authority is due to come into force in July.

While the rules effectively tackle the issue of greenwashing that the SFDR is presently facing, the market has expressed some concern that there is still room for confusion.

The SFDR 2.0 could align very closely with SDR but, perhaps concerningly, the latter is expected to be less prescriptive about what assets products should contain. In any case, UK asset managers will not be obligated to label their products, but merely will be able to from August onwards.

According to a straw poll conducted Alpha Financial Markets Consulting, only 5% of asset managers plan not use the SDR labels.

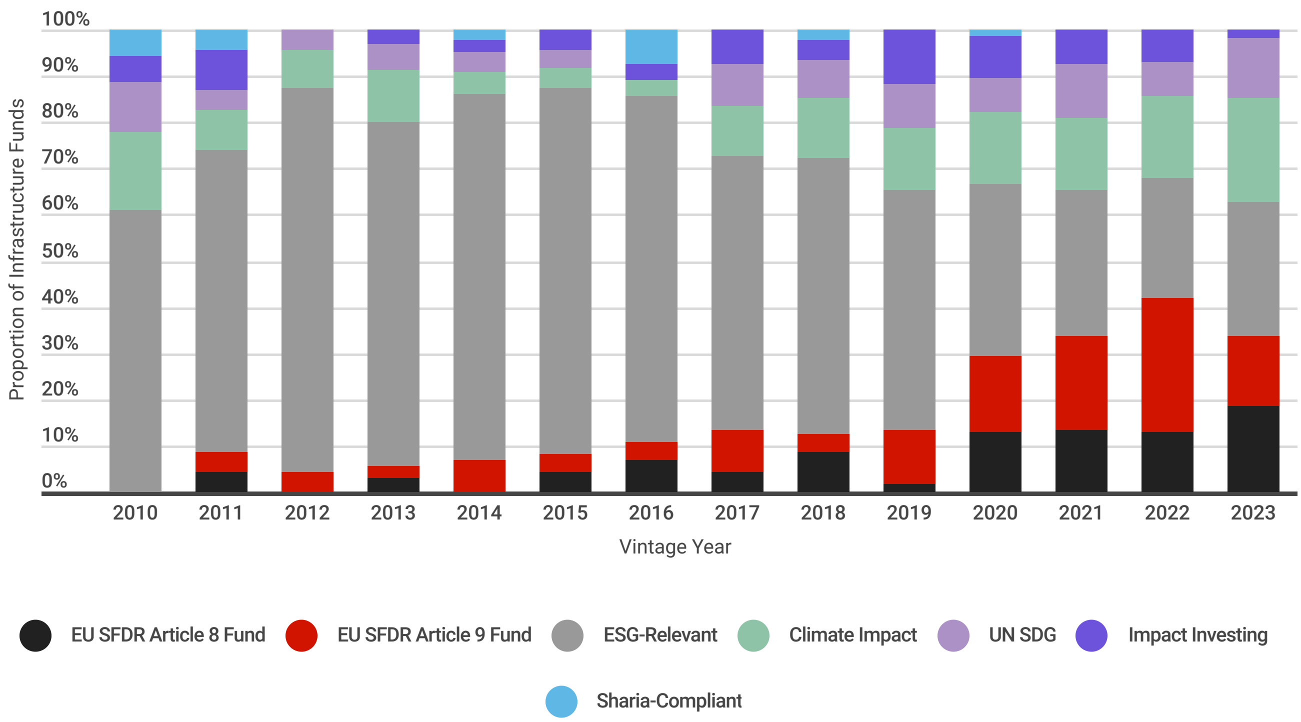
ESG on the agenda in Asia

Beyond the US and Europe, ESG financial regulation is making inroads. In December, Singapore's central bank unveiled the Singapore-Asia Taxonomy for Sustainable Finance at COP28 in Dubai.

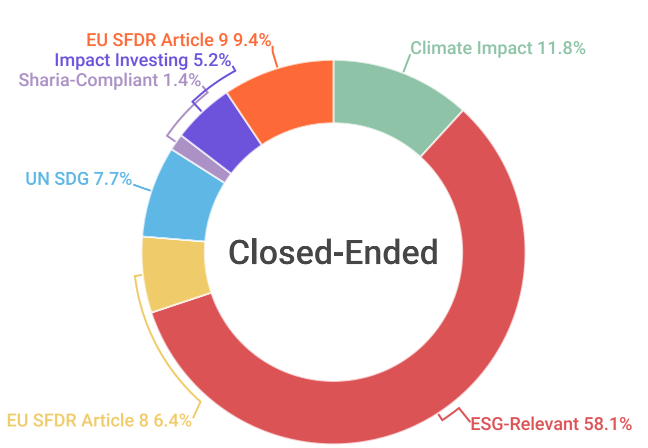
Like its EU predecessor, the taxonomy sets out thresholds and criteria for defining what is a green and transition activity that influence climate change mitigation within eight areas: energy, industrial, carbon capture and sequestration, agriculture and forestry, construction and real estate, waste and circular economy, ICT and transport.

Sensitive to the Asia's unique challenges in moving to net zero, the taxonomy makes use of a transition category designed to mitigate the risk of greenwashing and ensure that financed activities are on a pathway to net-zero emissions.

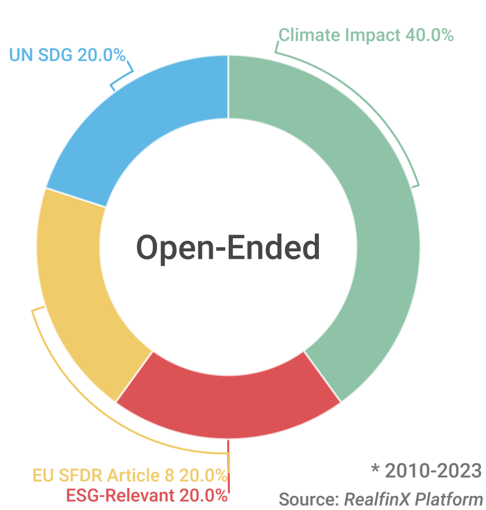
Global Unlisted Infrastructure ESG Fund Designations



Unlisted Closed-Ended Infrastructure Fund ESG Designations*



Unlisted Open-Ended Infrastructure Fund ESG Designations*

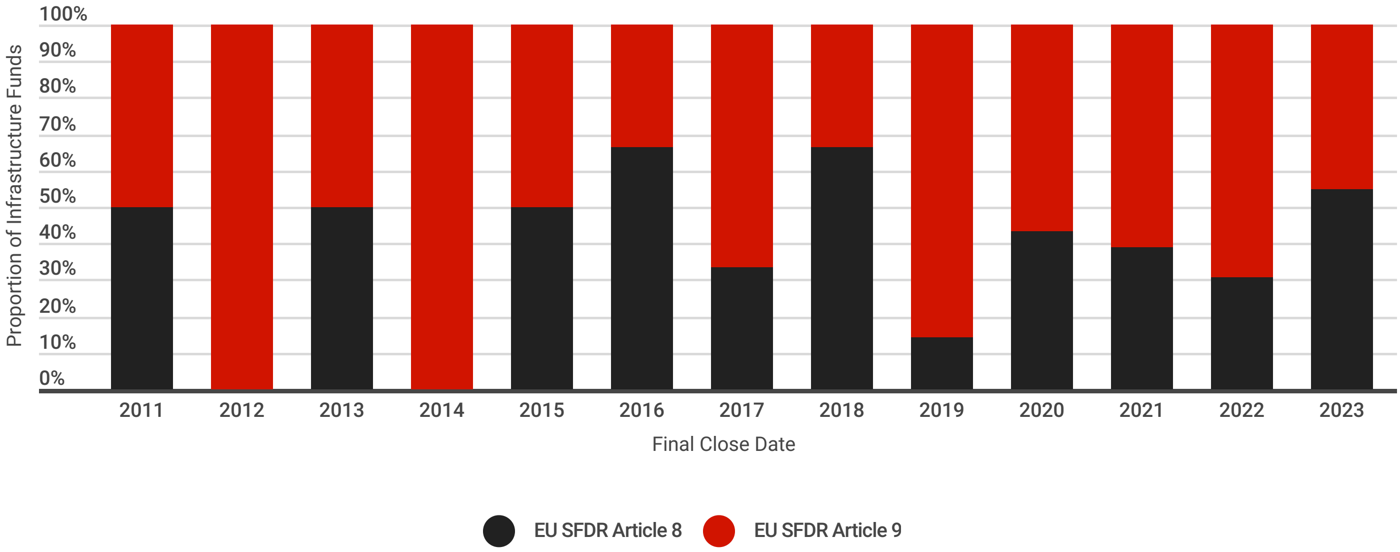


* 2010-2023
Source: *RealfinX Platform*

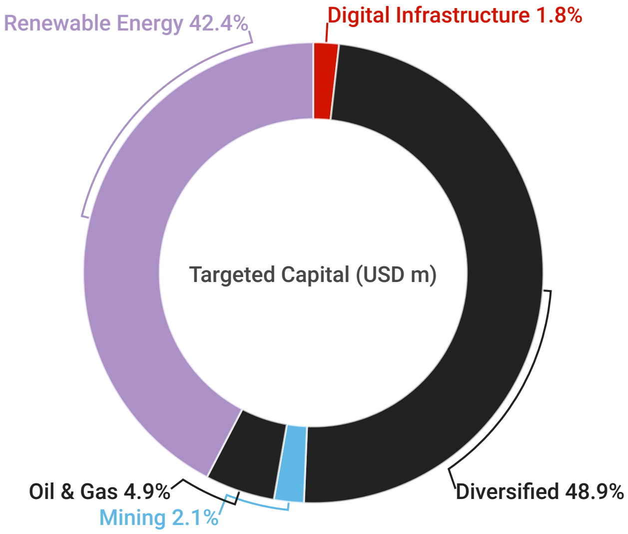
Tailored especially for asset managers, the rules presented in the consultation paper included guidelines to enable managers to pursue the climate change mitigation, adaptation and net-zero measures of their clients. The Monetary Authority of Singapore intends to supplement Singapore's existing Guidelines on Environment Risk Management for Asset Managers.

In Japan, the government recently issued a paper focused on unpicking the challenges faced when measuring financed emissions, offering up proposals for new calculation methods and disclosures. The paper differentiates the respective challenges financial institutions face in managing financed emissions, recognising that these challenges for asset managers are distinct from those of asset owners and insurance companies.

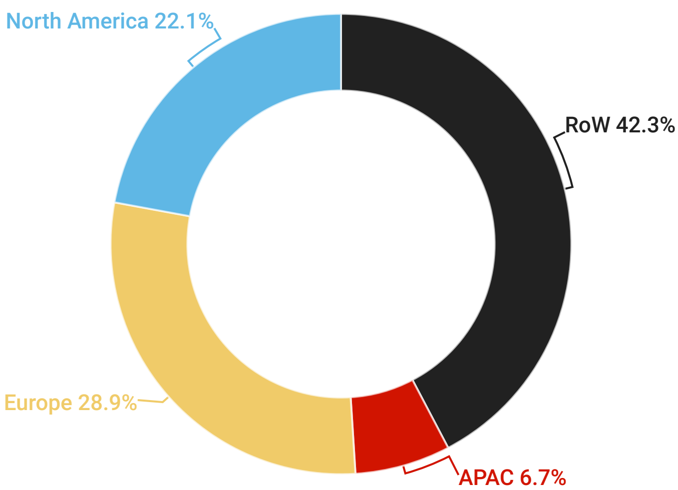
Global Unlisted Infrastructure Funds with EU SFDR Article 8 & 9 Designations



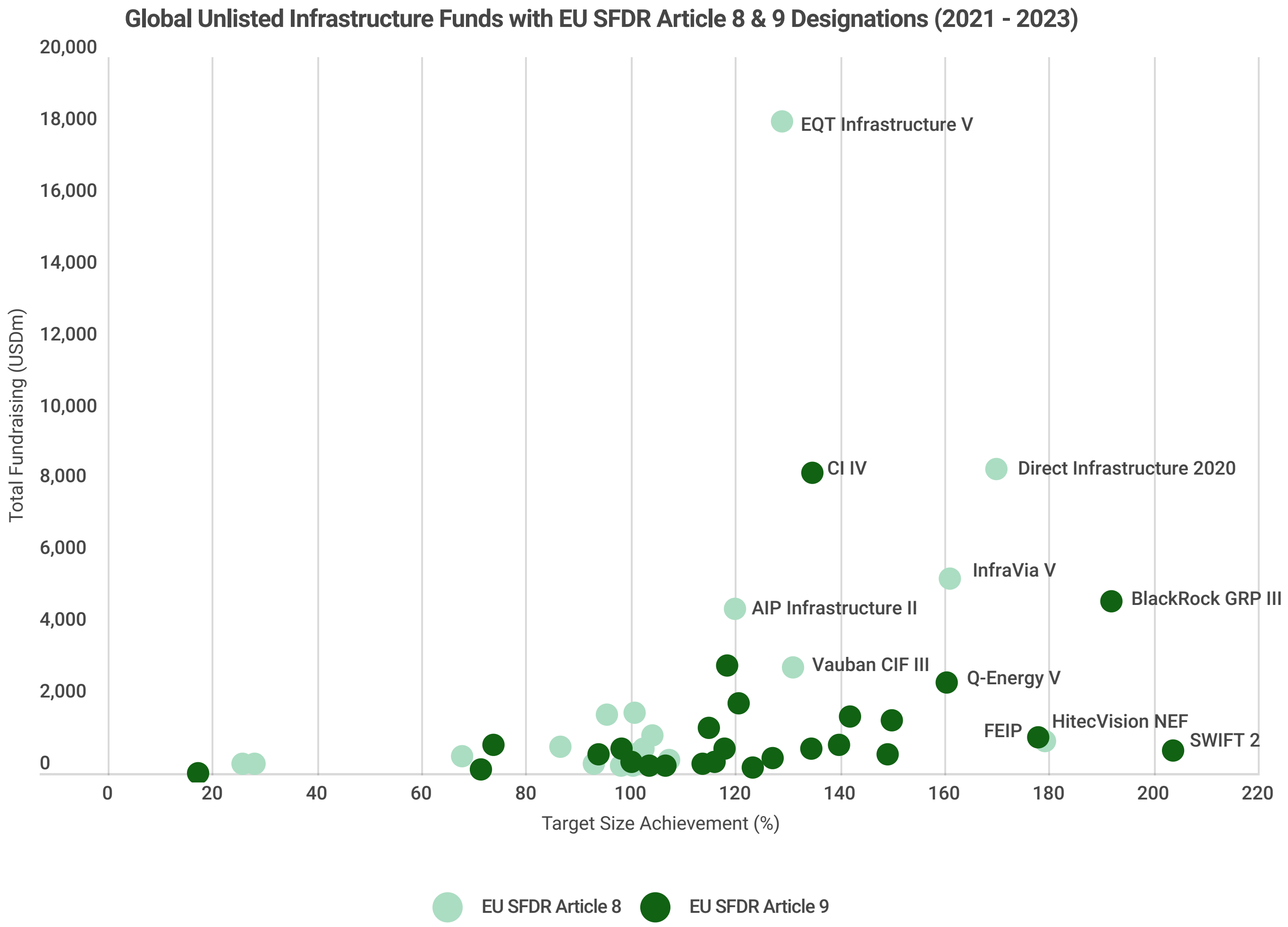
Infrastructure ESG Funds by Target Sector - 2023 (Number of Funds)



Infrastructure ESG Funds by Target Geography - 2023 (Number of Funds)



Source: *RealfinX Platform*



Asian ESG leadership is also coming to the fore in South Korea, where the Financial Supervisory Service released requirements for funds that include "ESG" in the fund name or within investment objectives with the aim of improved transparency for investors. The standards could potentially apply to both existing and new funds in 2026.

In Asia as elsewhere, infrastructure is at the heart of these regulatory developments in ESG finance. A recent study conducted by Linklaters highlighted that 97% of infrastructure companies with core and non-core infrastructure assets are exposed to ESG risks that could affect their credit ratings and appeal to investors. Most exposed to regulatory risk would naturally be utilities, transport and thermal energy generation, while physical climate risks most affect telecommunication, utilities and transport.

As ESG regulation continues spreading across the globe and cementing domestic practices, it becomes clearer each year that ESG regulatory scrutiny is here to stay. While a few actors may balk at the burden placed on financial market participants, asse, the majority of the market will be preparing to capitalise on ways the regulations advance ESG investment practices.

ESG fund in focus

BlackRock Global Infrastructure Fund IV

- **Vintage year**: 2022
- **Target size:** USD 7,500,000
- **Fund life:** 12 years
- **Extension provision length:** 1 + 1 + 1 years
- **Domicile:** US
- **ESG category**: EU SFDR Article 8
- **Main sectors:** Energy, digital, transportation or environmental & natural resources industries Investment Strategy: 15 to 20 equity investments between USD 200 and USD 500 million
- **Geography:** The fund is permitted to invest up to 25% in non-OECD countries
- **Limited Partners:** ALTERRA, Baltimore City Employees' Retirement System, Board of Commissioners of Public Lands, City University of New York, Connecticut State Retirement Plans & Trust Funds, District of Columbia Retirement Board, New Mexico State Investment Council, New York City Fire Department Pension Fund, San Joaquin County Employees Retirement Association

04
ESG Strategies & Labelling

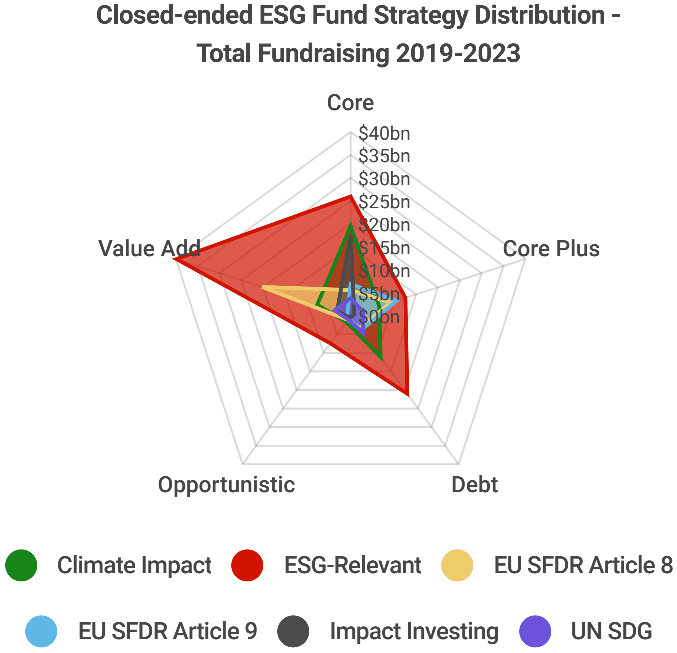
ESG strategies & labelling

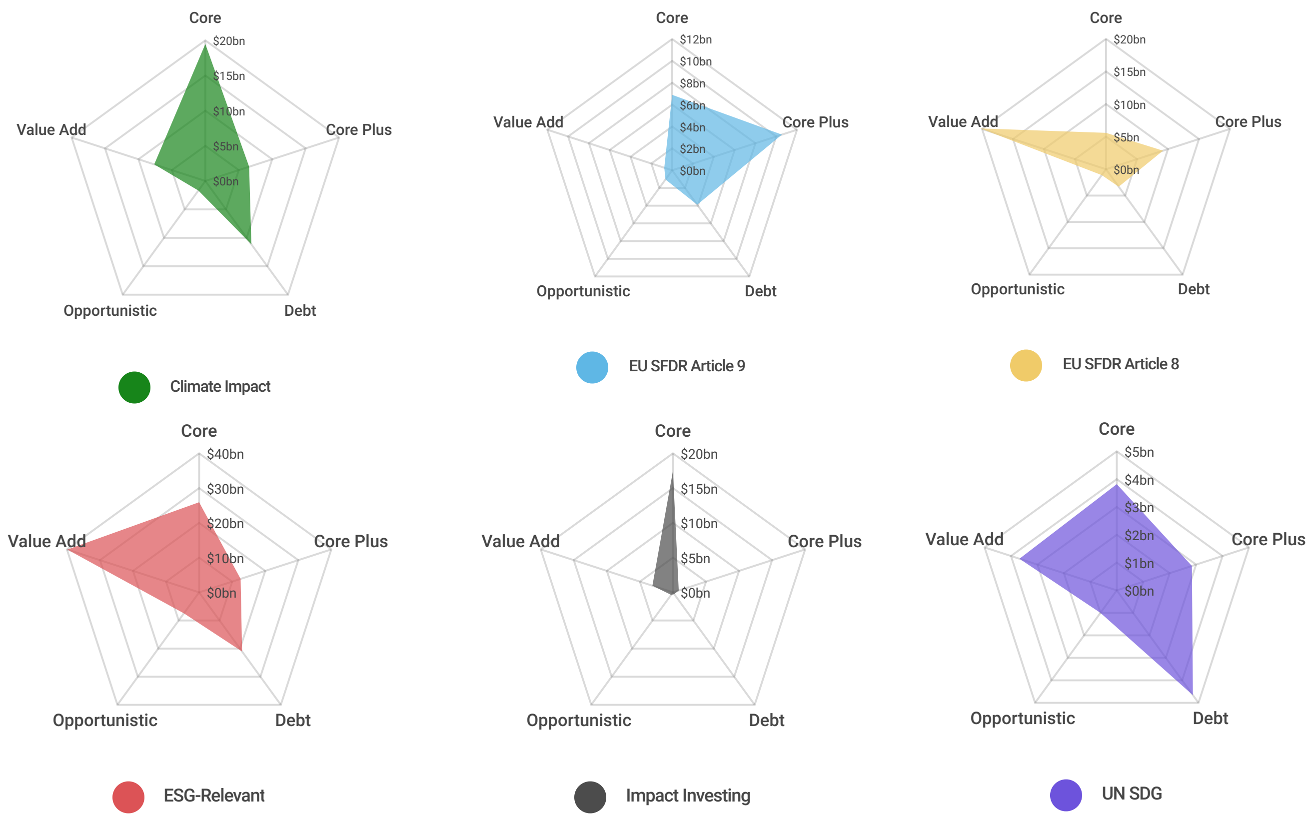
The majority of global private infrastructure ESG fundraising either includes or exclusively uses one of a number of labels or categories that are unaffiliated with both multinational regulations and impact investing. This can be seen in Realfin's comprehensive dataset on infrastructure funds for the five years ending with 2023.

For this broad group of "ESG-relevant" category funds, value add and core are the most common fundraising styles deployed, attracting a total of USD 40 billion and USD 25 billion in aggregate fundraising over the period. Climate impact funds targeting core and EU SFDR Article 8 funds targeting value add are the only other fund styles that cumulatively reached the USD 20 billion mark.

It is interesting to note that the riskier value add style is associated with the so-called light green SFDR Article 8 label, whereas the more climate-conscious dark green SFDR Article 9 label is associated with the more defensive core plus and core strategies.

The European Commission's proposed reform of labelling regimes to make them more palatable to investors is expected to expand the use of Article 8 and Article 9 labels.





05
Realfin ESG Rankings

Realfin ESG Rankings

Selection of Unlisted Infrastructure ESG Final Closes - 2023

	Fund	Manager	ESG Characteristics	Geographic Targets	Final Size (USD m)
	Blackstone Green Private Credit Fund III	Blackstone	Climate Impact; ESG-Related	North America	7100
	KKR Global Impact Fund II	KKR	UN SDG	Global	2800
	Q-Energy V	Qualitas Energy	EU SFDR Article 9; UN SDG	Europe	2509
	GGI Senior Infrastructure Debt Fund II	Infranity	ESG-Related	Europe	1783
	Cube Infrastructure Fund III	Cube Infrastructure Managers	ESG-Related; EU SFDR Article 8	Europe	1618
	Climate Assets Fund I	Just Climate	EU SFDR Article 9	Global	1500
	CVI Clean Energy Fund II	AB CarVal	ESG-Related	North America; Europe	1500
	Sandbrook Climate Infrastructure Fund I	Sandbrook Capital	Climate Impact	North America; Europe	1500
	CI Green Credit Fund I	Copenhagen Infrastructure Partners	Climate Impact; ESG-Related; EU SFDR Article 9; UN SDG	North America; Europe; Asia	1263
	DigitalBridge Credit	DigitalBridge	ESG-Related	North America; Europe	1100

Source: *RealfinX Platform*

Top 20 Global Infrastructure ESG Fund Managers, Five Years to 2023

Rank	Domicile	Fund Manager	Capital Raised (USD m)
1		Global Infrastructure Partners	39,100
2		EQT	34,404
3		Copenhagen Infrastructure Partners	21,318
4		I Squared Capital	16,200
5		Brookfield Asset Management	15,000
6		Macquarie Group	11,303
7		BlackRock	10,746
8		Partners Group	10,258
9		KKR	8,794
10		DIF	8,357
11		Blackstone	7,478
12		Stonepeak	6,050
13		Generali Group	5,726
14		InfraVia Capital Partners	5,459
15		Pantheon	5,300
16		Groupe BPCE	5,188
17		NGP	5,151
18		Actis	4,700
19		EIG Global Energy Partners	4,664
20		Pensionskassernes Administration	4,601

Source: *RealfinX Platform*

Top 20 Global Infrastructure ESG Legal Advisers, Five Years to 2023

Rank	Domicile	Fund Manager	Capital Advised (USD m)
1		Loyens & Loeff	64,698
2		Kirkland & Ellis	51,561
3		Simpson Thacher & Bartlett	34,395
4		Debevoise & Plimpton	32,054
5		Sullivan & Cromwell	30,153
6		Plesner	21,318
7		Weil, Gotshal & Manges	18,792
8		Clifford Chance	18,239
9		Paul, Weiss, Rifkind, Wharton & Garrison	18,047
10		Fried Frank	17,351
11		Bae Kim & Lee	12,039
12		King & Wood Mallesons	10,966
13		Simmons & Simmons	8,785
14		Burness Paull	5,402
15		Bruun & Hjejle	4,601
16		Allen & Overy	4,578
17		Latham & Watkins	4,102
18		Ropes & Gray	3,553
19		Arendt & Medernach	3,382
20		Jones Day	3,343

Source: *RealfinX Platform*

Top 20 Global Infrastructure ESG Placement Agents, Five Years to 2023

Rank	Domicile	Fund Manager	Capital Advised (USD m)
1		Mitsubishi UFJ Alternative Investments	69,100
2		Fund Placement Israel	42,609
3		LarrainVial	42,459
4		Spire Capital	33,217
5		Campbell Lutyens	30,671
6		KB Financial Group	28,087
7		FIRSTavenue	25,922
8		PICTON	23,380
9		UBS	22,220
10		Mitsubishi Corporation	22,000
11		Greshler Finance	21,087
12		Selinus Capital	19,933
13		Allen Partners	17,953
14		CFJC	17,933
15		JP Morgan Chase	15,797
16		Morgan Stanley	15,478
17		Brookfield Asset Management	15,000
=		Evercore	15,000
=		LatAm Capital Advisors	15,000
=		PIA Pontis Institutional Advisors	15,000

Source: *RealfinX Platform*

06
Guest Q&A

ESG regulation drives market forward

As a France-headquartered infrastructure asset manager with approximately USD 10 billion in assets under management, Vauban Infrastructure Partners wears sustainability on its sleeve, and it has the firepower to make a difference.

Vauban invests predominantly into four sectors: transportation, social buildings via public-private partnerships, digital infrastructure and, more recently, energy transition sectors such as wind power. As a buy-and-hold equity investor that likes to be a majority shareholder, the manager is in a good position to influence its companies' progress on sustainablity KPIs.

Realfin spoke to Gwen Colin, ESG Director and Partner, at the firm on how ESG has become mainstream within the firm, how it applies ESG into its investments and why intellectual collaboration is vital.

Q: What does ESG mean to Vauban Infrastructure Partners?

Everyone at Vauban Infrastructure Partners is required to integrate ESG into their scope of work and ESG KPIs influence our remuneration. The investment team has been trained to understand the material impact of each type of asset based on the UN Sustainable Development Goals. For the ESG team, we work at each phase of the investment cycle – from the screening committee to the signing of an investment – reviewing each step of ESG integration. At the asset management level, it's about how we put in place action plans, targets, and the right KPIs to follow those action plans through.

Q: What do your ESG initiatives mean in practice for your investment team?

At a foundational level, we use SASB standards to map the sectors we are in and build insight on what questions we need to ask of our possible investments. And then at the asset level, we'll have that discussion of where the asset is, in terms of efficiency, consumption and pollution. At a more granular level, we may want to identify type or types of energy that an asset is using. The first question I will ask is where is the asset? We then assess the carbon emissions target of that country or state we intend to invest in. Is there a push to decarbonise? If so, can we work hand in hand with the relevant authorities?

Take data centres, for example. Is the source of energy for the business renewable? Is there a path forward where it can be? How can the asset be more energy efficient? We also need to ask ourselves if we have the right level of Capex available to support a more efficient asset.

Q: How is this activity influencing your portfolio mix?

We have the historical portfolio of around 70 assets. We typically invest between 8-12 new assets within the year.

Gwen Colin is ESG Director and a Partner at Vauban Infrastructure Partners

Consideration of ESG KPIs is getting stronger by the year. Since certain reporting in this area has become compulsory, it has moved the needle.

And for some assets the pickup is fast. Companies are even more demanding – in terms of certifications, in terms of initiatives and how they communicate about what they're doing – than what we expect of them. It's strategic for them to position themselves in the market.

Q: What is your take on the regulatory push for more ESG transparency and reporting?

Regulation really helps me with my homework. A handful of projects we are invested in are run by companies who will have to submit sustainability reports as part of the CSRD. This will happen in 2026, but in terms of putting together the right data collection tools, and the right number of people involved, it's moving along. It's the same with SFDR [for asset managers] and the EU taxonomy. I'm a big believer that regulation does help the private markets.

> At the asset management level, it's about how we put in place action plans, targets, and the right KPIs to follow those action plans through.

At the asset management level, it's about how we put in place action plans, targets, and the right KPIs to follow those action plans through.

Unlike public markets, data is not as easily accessible and standardised. You need the right level of information to move from your asset to your portfolio. And from asset to asset, the materiality is different and not always easy to define. PAI requirements under SFDR, for example, do help create some common linkages. We require PwC to audit our SFDR report - it is not required by regulation, but we believe it's the next important step.

We also advocate for public research. Every year we focus on an ESG topic, work with academics, practitioners, investors, public authorities, the European Commission, US political leaders, our LPs and our asset operators and discuss it with them.

We want Vauban Infrastructure Partners to be the active player of the society of tomorrow. We think collaboration is key.

07
Realfin Outlook

Realfin outlook

In 2024, it is anticipated that infrastructure ESG investment will evolve on multiple fronts. Fund and investment managers will be aware of the shifts driven by not only inflation but also changes in political attitudes and values. At the same time, they must keep pace with the growing standardisation of ESG data collection and product labelling.

01. Shrinking pool of ESG-specific investment products in a more defined labelling environment
Removal of ESG labels in favour of sustainability for some funds, with a stronger focus on long-term resiliency for assets, is a trend seen within infrastructure investment management. Certain Europe-domiciled ESG fund managers have recently changed their marketing and labelling for ESG funds. The drivers for removing ESG labels vary and include not only the anti-ESG backlash in the US, but also the need to comply with stricter regulation in Europe. The upshot is that funds that retain ESG labels are more likely to be genuinely targeting those investments rather than those which have been simply using the label to attract a certain type of capital.

02. Push for greater clarity on measuring returns from ESG
More focus on value creation and translating ESG factors into returns while meeting KPIs. Although private ESG infrastructure funds are far from alone in facing the challenging equity environment, the investment community has been questioning whether ESG-labelled funds are returning superior excessive returns as once commonly believed. Managers may require more proof showing how the financialisation of ESG or sustainability factors translate into returns. As the inflation story continues brewing in the market, whether investors may expect past high returns for ESG to continue is in question, but they should not expect low returns to persist, either.

03. The integration of standardised data processes will elevate reporting
Levelling up in ESG reporting standardisation is inevitable as firms are approaching the first CSRD deadlines under EU regulation in 2025. Investment managers will be standardising data over the coming months, for example on double materiality. Investors also want the ESG data to be transferred directly to them to put in stories and case studies and ESG reports, but confusion persists over what data should be relayed. The process of standardisation over the next couple of years is expected to be quite painful, but fund managers will have to work through it.

04. The transparency of UK ESG investment will be in focus
The anti-greenwashing regulation is raising the profile of the UK on the global ESG investment front after a period in which some entities had faced greenwashing litigation. UK-based fund managers with marketing and disclosure obligations in 2024 and 2025 will face significant costs and workloads to align to regulations given the prevalence of ESG labelling in the market. They must bring into alignment with the rules their marketing material, promotional material as well as other material they make available for clients to read.

> “While private ESG infrastructure funds are far from alone in facing the challenging equity environment, the investment community has been questioning whether ESG-labelled funds are returning superior excessive returns as once commonly believed. Managers may require more proof showing how the financialisation of ESG or sustainability factors translates into returns.”

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