

**Infrastructure
Investor**

Sustainable investing

November 2019 • infrastructureinvestor.com



Tackling the ESG puzzle

EXPERT COMMENTARY

A commitment to preserving resources for future generations is an essential part of any infrastructure investment, believes Sam Lissner of Ridgewood Infrastructure



Creating value through sustainable investments

In recent years, investor focus on sustainability factors has transitioned from exception to the norm. Still, when making investment decisions, many investors continue to wrestle with how to effectively evaluate, implement and measure the sustainability of their investments.

Ridgewood believes investing in line with our values enhances the value we create for our investors. In the near term, sustainable investments create efficiencies that reduce costs, improve service levels and drive greater profitability. Over the longer term, we expect sustainable infrastructure will prove robust to a range of social, environmental and other changes, making our investments ever-more attractive as investors and other stakeholders increasingly focus on the benefits of sustainable investing.



Ridgewood proactively focuses on operationalising sustainability throughout our investment process, from sourcing and diligence, to ownership and asset management. In this endeavour, Ridgewood has defined a set of sustainability goals and developed a proprietary framework for evaluating and managing investments along its axes of value(s).

Our investment in the Vista Ridge Water Supply Project exemplifies Ridgewood's philosophy of investing and emphasis on sustainability.

Vista Ridge stewards sustainable management of natural resources; protects environmental wellbeing; and ensures access to affordable, reliable, and high-quality services that make the community it serves more resilient to a range of potential disruptions.

Ensuring reliable, plentiful and clean water for San Antonio

Vista Ridge is Ridgewood's investment to construct, own and operate a 140-mile (225km) pipeline that will supply approximately 20 percent of San Antonio's fresh water under a 30-year take-or-pay contract with the investment-grade San Antonio Water System.

Founded in 1718, San Antonio, Texas is among the most dynamic cities in America. Over the past several decades, an influx of high-tech and industrial companies has contributed to rapid expansion of San Antonio's metropolitan area, which is today among the fastest growing urban regions in the country. With a population of more than 1.5 million people, San Antonio is currently the seventh largest city in the US. Looking ahead, city officials forecast a near doubling of the city's population – to almost three million people – over the next two decades.

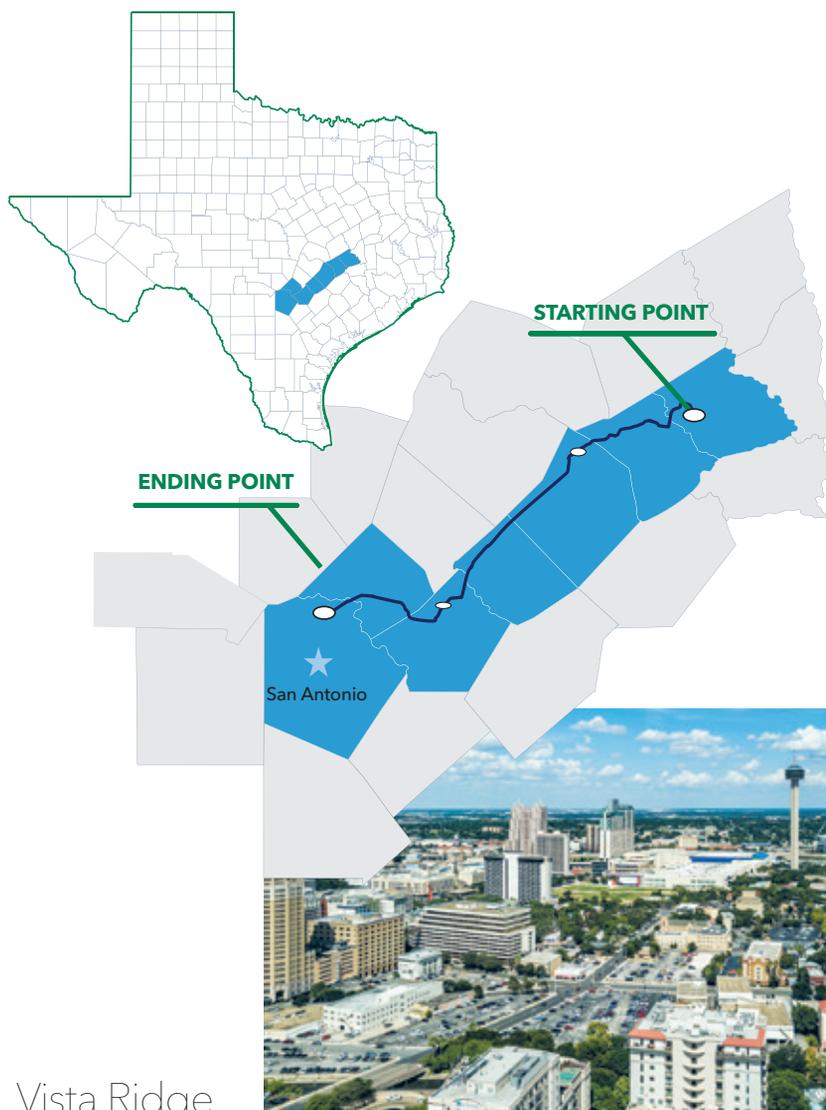
Despite being prone to severe drought conditions, San Antonio has flourished thanks to its proximity to the Edwards aquifer, which is a substantial underground resource from which the city draws most of its fresh water. As the population increased, San Antonio ramped up withdrawals from the aquifer. But, over time, the Edwards has struggled to meet burgeoning demand and sustained significant ecological damage.

Vista Ridge reflects Ridgewood's approach to investing in essential infrastructure that is of strategic, environmental, and social importance to the communities it serves.

The public private partnership creates a new 140-mile link for San Antonio to one of America's most prolific aquifers—the Carrizo Wilcox. Vista Ridge diversifies the city's water supply, it provides meaningful relief to the ecology of the Edwards aquifer, and it ensures the citizens of San Antonio will have access to reliable, plentiful and clean water for generations to come.

Stewarding scarcity

Ridgewood is committed to stewarding scarce resources for the benefit of future generations. In each of our investments, Ridgewood focuses on facilitating sustainable and efficient operations. In our Vista Ridge investment, the community determined that the Carrizo Wilcox aquifer – which spans more than 20 million surface acres – is an appropriate supplemental source of water for San Antonio. The aquifer



Vista Ridge

is considered to be drought resistant and contains over 12 times the amount of water in all Texas lakes combined.

Ridgewood is committed to promoting biodiversity and environmental wellness. By helping to reduce San Antonio's overuse and over-reliance on a single aquifer, Vista Ridge can help begin the process of repairing serious ecological damage that has been done to the Edwards.

In the mid-1980s, scientists from the Geological Society of America catalogued more than 40 aquatic and subterranean species living in the Edwards aquifer ecosystem. In the intervening years, increased water usage by San Antonio contributed to the endangering of roughly 20 percent of these species. By creating access to a new source of water for San Antonio, Vista Ridge will

de-stress these habitats and encourage ecological healing and rejuvenation.

In addition to these environmental considerations, we are also committed to effecting positive social impact and ethical governance that ensures access to critical resources and services that make communities more resilient.

Ridgewood invested in Vista Ridge at the beginning of construction in 2017, which was after the completion of a multi-year procurement and permitting phase during which project participants progressed through a "public comment" period.

The agreed-upon concession ultimately directs Ridgewood and its partners to build, own and operate Vista Ridge for 30 years, after which ownership of the project transitions to the city. During the concession

A sustainable approach for water

As a signatory to the UN-supported Principles for Responsible Investment and contributor to the GRESB network, Ridgewood takes seriously its responsibility to report on sustainability initiatives and performance.

Drawing from important work by the Sustainability Accounting Standards Board and other institutions focused on ensuring consistent and high-quality reporting across the industry, Ridgewood has developed a proprietary matrix of sustainability metrics, which we report to LPs on a quarterly basis.

Ridgewood's investment in Undine Group is focused on building a mid-sized regulated water utility through the acquisition of independent regulated water and wastewater utility systems in the highly fragmented US lower middle water market.

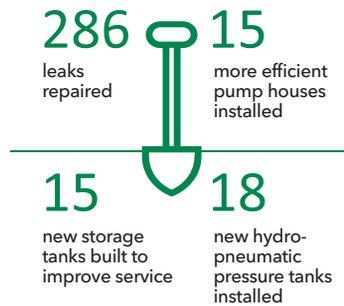
In executing this strategy, Undine



Undine upgrades the management of fresh water and wastewater utilities in the communities it serves



300+ million gallons of clean water provided via upgraded systems



often acquires water utilities from real estate developers and family owners that have under-managed their operations and capital investment. Importantly, Undine standardises and professionalises the management of the water and waste water systems it acquires, investing capital to improve the utilities' operations and customer service levels.

Working with management, Ridgewood developed a set of sustainability-focused KPI metrics to track our collective success in execution. Some illustrative examples include that, to-date, we have delivered more than 300 million gallons of fresh water through upgraded infrastructure. Under Ridgewood's ownership, Undine has fixed nearly 300 new state-of-the-art pump houses and storage tanks. Through these efforts, Undine is reducing water line losses and ensuring more sustainable, efficient water resource management practices.

period, the municipal water authority of the city of San Antonio has agreed to the contracted price it will pay Vista Ridge for water. Through this structure, the city was able to amortise the large, upfront cost associated with a project of this scale over a multi-decade period.

Ridgewood is committed to forging partnerships with communities and stakeholders that share its values. In the case of Vista Ridge, Ridgewood's sustainability commitments and unique relationships led to collaborations with leading, like-minded project partners that will steward the asset and resources for generations to come. Through these partnerships, Ridgewood is working to ensure the operations and management of this essential piece of San Antonio's infrastructure will be maintained to a standard of excellence.

To complete the construction phase of the Vista Ridge project, Ridgewood partnered with Garney Construction, which is America's leading water pipeline construction firm.

Garney has deep experience working in and around the city of San Antonio. The company has deep relationships in the community and is sensitive to the needs of

various stakeholders. In recognition of its focus on sustainability throughout design and execution, Garney has been ranked as one of the top environmental contractors in America.

Through the ownership phase, Ridgewood remains committed to ensuring its investments achieve sustainability goals and maintain a trajectory of continued excellence and improvement.

In selecting an operator for Vista Ridge, Ridgewood utilised its deep network of relationships throughout the water industry to lead a competitive, targeted process that resulted in the selection of EPCOR Utilities as the utility company responsible for running day-to-day operations and completing ongoing maintenance of the project. EPCOR operates more than 3,000 miles of water transmission line in North America, including a water pipeline serving communities in nearby Austin, Texas.

EPCOR's strong history of sustainability operations was of key importance to Ridgewood. EPCOR has been recognised as a top company promoting sustainability-minded business models that incorporate social and ecological impacts. It has also been recognised by multiple state and

regional water associations for safe and sustainable operations.

Collectively, these efforts by Ridgewood will create an essential piece of environmentally and socially beneficial infrastructure, governed by a transparent public private partnership framework. Vista Ridge will diversify the city's supply of water, thereby safeguarding the resources of its existing primary aquifer and supporting the continued development and growth of San Antonio.

Too often, sustainable investing is little more than a marketing buzzword, with minimal integration into managers' investment processes and decision making. We fundamentally believe that investing according to sustainability values will also create significant value for our investors. Far from a forced choice between the two, our framework ensures the environmental and social impact of our investments enhances returns. ■

Ridgewood Infrastructure invests in essential infrastructure in the US lower mid-market. It is part of the affiliated Ridgewood companies, which manage more than \$7 billion of capital and commitments focused on investments in infrastructure and energy. As an organisation, we are committed to safeguarding scarce resources, while also promoting social progress and ethical governance



INVESTING IN AND FOR A SUSTAINABLE FUTURE

Ridgewood invests in essential infrastructure in the U.S. lower-middle market. We utilize our deep experience and broad relationships to collaborate with management and drive value.

Ridgewood Infrastructure considers environmental, social, and governance factors to be important sources of value creation and believes that well-governed companies with an environmentally sustainable and socially responsible way of operating deliver better outcomes for stakeholders.

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