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## Ridgewood Water & Strategic Infrastructure Fund II, L.P. - June 2022

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### **Sustainability-related disclosures – SFDR Article 10**

This statement was prepared for Ridgewood Water & Strategic Infrastructure Fund II, L.P. and the Ridgewood Water & Strategic Infrastructure Parallel Fund II, L.P. (collectively, “Fund II”) considering the disclosure requirements of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”). Fund II is an Article 8 investment fund managed by Ridgewood Infrastructure, LLC (“Ridgewood”). Pursuant to Article 10 of the SFDR, the following statement on sustainability-related disclosures has been prepared for Fund II.

This statement is based on the legislative guidance currently available in relation to the SFDR – the EU Commissions Delegated Regulation on Regulatory Technical Standards of April 6, 2022 (“RTS”). The RTS is expected to enter into force from January 2023; therefore, this statement may be subject to changes as further guidance and recommendations by the EU Commission are made available. A clear explanation of any resulting changes or amendments to the statement will be published.

In accordance with SFDR, entity level disclosures for Ridgewood, as manager of Fund II, are available through the ESG page of Ridgewood’s website.

### **Summary**

The financial product subject to this statement on sustainability-related disclosures is Fund II. Fund II qualifies as a financial product as referred to in Article 8 of the SFDR, promoting environmental and social characteristics, but Fund II does not have as its objective sustainable investment and an index has not been designated as a reference benchmark. Fund II’s general objective is to promote the UN Sustainable Development Goals (“SDGs”) with an emphasis on climate change mitigation and other sustainability goals.

Fund II focuses on investments in essential infrastructure assets and businesses in the U.S. lower middle market and targets to align at least 20% of the investments with the environmental and social characteristics promoted by Fund II. As part of the investment strategy, Fund II systematically integrates ESG factors in a disciplined investment process guided by the United Nations Principles for Responsible Investment (“UN PRI”). Further, Fund II has implemented engagement policies as part of the investment strategy.

The promoted environmental and social characteristics are monitored on an ongoing basis throughout the lifecycle of Fund II. Relevant sustainability indicators are used as the method for measuring how the social and environmental characteristics of Fund II are met, e.g., Scope 1–2 Greenhouse Gas Emissions are used for measuring climate change mitigation. Ridgewood uses a variety of data sources to attain each of the environmental and social characteristics, including ongoing communication with, and annual reports by, the asset operators. Ridgewood expects that limitations to the methodologies and data sources may occur and if such limitations occur, different methodologies or data sources may be used, if they are deemed suitable.

Ridgewood carries out thorough due diligence processes of Fund II’s underlying assets, including an evaluation of ESG opportunities, and mitigating risk factors. Ridgewood’s due diligence processes include the assessment of its negative/exclusionary screening principles and good governance practices. Ridgewood uses internal control mechanisms and collaborates with an independent third-party advisor.

**No sustainable investment objective**

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

**Environmental or social characteristics of the financial product**

Fund II promotes a mix of environmental and social characteristics and has as its general objective promotion of the UN Sustainable Development Goals (“SDGs”) with an emphasis on climate change mitigation and other sustainability goals.

The specific environmental and/or social characteristics that Fund II promotes will vary depending on the investment opportunities Ridgewood sources and the companies or assets in which Fund II invests. As a member of the Institutional Investors Group on Climate Change (“IICGG”) and in line with Ridgewood’s support for the tenets of the Paris Agreement and as a signatory to the Net Zero Asset Managers initiative, Ridgewood plans to align Fund II’s investments with the goal of achieving net zero portfolio emissions by 2050.

**Investment strategy**

The purpose of Fund II is to focus on investments in essential infrastructure assets and businesses in the U.S. lower middle market. The strategy to promote the environmental and social characteristics is to systematically integrate ESG factors in a disciplined investment process. Ridgewood considers ESG factors to be important sources of value creation and risk mitigation. Ridgewood generally focuses its ESG strategy on consideration of how investments align with the UN SDGs. Further, Ridgewood is a signatory to UN PRI and guided by this philosophy and these principles, Ridgewood integrates a focus on ESG factors into investment activities as illustrated by the following actions:

1. incorporating ESG into due diligence and investment management;
2. including ESG practices in ownership policies and processes;
3. formalizing, implementing, and enhancing ESG initiatives at each of Fund II’s investments, as relates to the particular aspects of each such investment; and
4. providing relevant stakeholders with transparency regarding ESG metrics and other associated information related to our investments.

**Ridgewood’s good governance policy**

Ridgewood follows relevant international standards and guidelines, is a signatory to UN PRI and Net Zero Asset Managers initiative, a member of IIGCC, and reports through GRESB’s Infrastructure assessment. Further, Ridgewood’s corporate sustainability commitments includes:

1. prohibition of bribery consistent with the OECD Anti-Bribery Convention;
2. respect to human rights of those affected by their investment activities;
3. seek to confirm that their investments do not flow to companies that utilize child or forced labor or maintain discriminatory policies;
4. compliance with applicable national, state, and local labor laws in the countries investments operate in;
5. supports the payment of competitive wages and benefits to employees;
6. provides a safe and healthy workplace in conformance with national and local law; and,

7. consistent with applicable law, will respect the rights of employees to decide whether to join a union and engages in collective bargaining.

Ridgewood's due diligence processes include the assessment of its negative/exclusionary screening principles and good governance practices, such as management structures, employee relations, staff remuneration, and tax compliance. As Fund II expects to take controlling stakes in its investments, Ridgewood may determine that governance practices may be instituted post-investment as part of Ridgewood's value creation efforts. Ridgewood may conclude not to pursue an investment if there are ESG or other issues that are deemed to be too intractable to be resolved.

### **Proportion of investments**

Ridgewood expects that a significant proportion of Fund II's investments will meet the environmental or social characteristics promoted by Fund II. Fund II targets to align at least 20% of the investments with the environmental and social characteristics.

Fund II might acquire assets or companies qualifying as "sustainable investments" as defined by the SFDR. However, given the likelihood of variation in scale and valuation of various potential investments, Ridgewood cannot estimate Fund II's minimum proportion of sustainable investments or the degree to which Fund II's assets will be allocated to specific categories of investments. Consequently, Fund II cannot commit to making sustainable investments.

Fund II does not anticipate utilizing derivatives. To the extent it does, the use of eligible derivatives would be expected to allow Fund II to gain exposure to activities that contribute to the environmental or social characteristics promoted by Fund II more efficiently and cost effectively.

### **Monitoring of environmental or social characteristics**

Fund II monitors the promoted environmental and social characteristics of its investments using sustainability indicators related to each of those characteristics throughout the lifecycle of Fund II. The environmental and social characteristics of each investment are assessed on an ongoing basis, including during pre-investment due diligence to inform decision-making, as well as during management of investee companies in Fund II's holding period.

Monitoring is conducted using internal control mechanisms, as required, through ongoing reporting by Fund II's investment team to Ridgewood's Principal responsible for its ESG policy. The investment team regularly communicates with Fund II's portfolio companies on ESG and other matters. Ridgewood collects ESG performance data from portfolio companies on an annual basis.

### **Methodologies for environmental or social characteristics**

Fund II uses relevant sustainability indicators as the method for measuring how the promoted social and environmental characteristics of Fund II are met. In support of advancing Fund II's objectives including the promotion of SDGs and climate change mitigation, it measures absolute Net Scope 1–2 Greenhouse Gas Emissions, at the portfolio company level.

On a case-by-case basis, Ridgewood identifies additional, relevant sustainability indicator(s) in connection with each of Fund II's investments based on the nature of the company(ies) or asset(s) in which Fund II invests and its industrial sector and operations, and their potential contribution to the SDGs. These additional indicators relate to both environmental and social characteristics.

### **Data sources and processing**

Ridgewood uses a variety of data sources to attain and evaluate performance relative to each of the environmental and social characteristics promoted by Fund II. The data sources include ongoing communication between the investment teams and asset operators, and annual reports provided to Fund II by the asset operators. The reports contain ESG data to ensure the investments seek to contribute to the SDGs and promote social and environmental characteristics including, but not limited to Annual asset specific reporting on, e.g., greenhouse gas emissions.

To ensure appropriate data collection methodology and data quality, the reports are processed, checked, and approved by representatives from the asset operators. Further, Ridgewood collaborates with an independent third-party advisor that performs a similar review of the asset-level data, processes and complies data at Fund II level. The proportion of data that are estimated depends on the specific ESG data in question and the methodology to measure it. Thus, some data are not estimated, while some data, e.g., scope 2 GHG emissions are estimated using energy consumption and emissions factors.

### **Limitations to methodologies and data**

Ridgewood expects that limitations to the methodologies and data sources may occur, primarily because SFDR disclosure requirements is a relatively new legislation and, as such, a lack of data and industry standards to support the SFDR requirements exists. If such limitations to the methodologies or data sources occur, Fund II may use different methodologies or data sources deemed suitable for the environmental or social characteristic. In such cases, the rationale for the change of methodology or data source and a description of the alternative methodology or data source will be provided, thus ensuring that such limitations do not affect how the environmental or social characteristics promoted by Fund II are met.

### **Due diligence**

Ridgewood carries out thorough due diligence processes of Fund II's underlying assets, including an evaluation of ESG opportunities, and mitigating risk factors. The due diligence consists of the following phases:

1. Pre-screening phase: Potentially material ESG risk factors are identified and discussed, with an emphasis on the ability to further evaluate and/or address these issues adequately during due diligence. During the pre-screening phase, Fund II also ensures no conflicts exist with Ridgewood's exclusionary investment criteria. The ESG risk factors are based on internationally accepted principles and standards related to the sectors in which Fund II invests.
2. Initial due diligence: The conduct of initial due diligence ensures the creation of a more informed understanding of the potential material ESG risk factors and opportunities. Fund II may utilize third-party ESG specialists during the phase. The findings are discussed during weekly team meetings and formalized due diligence review meetings.
3. In-depth due diligence: The completion of an ESG screening that further evaluates the target's performance with respect to potential material ESG risk factors previously identified and includes an assessment of other ESG matters prioritized by Ridgewood, such as climate risk, environmental justice, and monitoring of key performance indicators that align with SDGs, SASB, and SFDR. Fund II utilizes third-party ESG specialists during the phase. The findings are included in the investment memo prepared for Ridgewood's investment committee.

At any stage of the above-described due diligence process, Ridgewood may conclude not to pursue an investment if there are ESG or other issues that are deemed to be too intractable to be resolved.

Internal and external controls are incorporated throughout the due diligence process. Internal controls include the above-described weekly team meetings and formalized due diligence review meetings, where decisions are made regarding advancement to full due diligence. External controls include the utilization of third-party ESG specialists.

#### **Engagement policies**

Ridgewood has developed a proprietary ESG toolkit focused on ensuring its portfolio companies to implement best-practices related to ESG. As part of its post-closing 100-day plan processes, Ridgewood ensures its portfolio companies have adequate internal resources to focus on ESG and supports the implementation of ESG-related policies and procedures that were identified to be needed during the due diligence phase and build on best-practices from across the portfolio and broader industry.

Further, as part of Ridgewood's annual submissions to UN PRI and GRESB, Fund II undertakes additional monitoring and engagement with its portfolio companies related to ESG and sustainability. Ridgewood's portfolio companies are encouraged to align with UN PRI and GRESB. In certain cases, Ridgewood also encourages its portfolio companies to align with industry-specific standards such as certification by LEED in the construction of new facilities.

#### **Designated reference benchmark**

An index has not been designated as a reference benchmark to meet the environmental and social characteristics promoted by Fund II.