

# UK Stewardship Code

Response by Arcus Infrastructure Partners – December 2010

## APPLICATION OF THE UK STEWARDSHIP CODE

### Background

Arcus Infrastructure Partners is a leading independent, specialist fund manager focused on the European infrastructure sector. We provide our services to clients through FSA authorised and regulated entities.

Our first fund, Arcus European Infrastructure Fund 1 LP (the “Fund”), is an unlisted fund with over €2 billion of commitments backed by over 40 institutional investors from around the world. The Fund invests in high quality infrastructure assets throughout the European area and we actively manage those assets to deliver long-term value for the Fund’s investors.

This document serves as Arcus Infrastructure Partners’ statement of compliance with the UK Stewardship Code (the “Code”) and how we discharge our stewardship responsibilities. Specifically it highlights how we engage with, and monitor, investee companies; how we include stewardship in our wider investment process; and our voting policy.

### Principle 1

**Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

#### Arcus Infrastructure Partners response

We believe that an active approach to managing assets will deliver long term value. As part of the investment thesis when we are looking at potential assets for the Fund, we examine and consider not just economic factors but also areas such as governance arrangements, service quality and sustainability as they influence long term value.

To that end, Arcus Infrastructure Partners has designed and implemented a Management Toolkit which examines Management Excellence, Operations & Strategy and Finance & Reporting for assets acquired by the Fund. The findings are used to formulate Strategic Initiatives to maximise shareholder value over the long-term.

In order to achieve our Strategic Initiatives we engage with, and have an ongoing dialogue, with investee companies. Most investments made by the Fund are in unlisted companies where we hold Board positions. By holding these positions we can actively monitor management and significantly influence the business as a way of protecting and enhancing the Fund’s investment. In some instances the Fund has acquired stakes in listed companies. For listed positions we develop and maintain dialogue with management to better understand the company and its markets and to express our views on significant matters. We also engage with other shareholders to gauge their views and where appropriate seek co-operation to express concerns to management.

In line with our active approach Arcus will ordinarily vote all its shares at meetings. In determining how to vote Arcus will consider a range of factors such as performance, governance and strategy and whether the proposed resolution is, in Arcus’ opinion, in the interests of long term shareholders. Arcus does not utilise proxy voting platforms.

## Principle 2

**Institutional investors should have a robust policy on managing conflicts of interest in relationship to stewardship and this policy should be publicly disclosed.**

### Arcus Infrastructure Partners response

Arcus Infrastructure Partners has a Conflicts of Interest Policy appropriate to its nature, scale and complexity which is applicable to all members and staff. The policy sets out examples of where potential conflicts may exist, various prevention measures put in place and a framework to identify, evaluate and manage actual or potential conflicts of interest. The policy is subject to review on an annual basis and is accessible to all staff.

We are wholly owned by our members and they have a material personal investment in the Fund; therefore our interests are aligned to all the other Fund investor's interests.

The Fund is operated in accordance with its Limited Partnership Deed. Any potential conflicts which arise are managed using segregation of duties and management oversight. Should any other material conflict of interest arise involving the Fund and ourselves, the matter is referred to the Advisory Board for its consideration.

Additionally the Fund is governed by a Supervisory Board which considers and makes decisions on all Fund matters including investment decisions. The Fund Supervisory Board comprises a majority of independents each of whom are highly experienced and provide external input and strong challenge to protect the interests of the Fund.

## Principle 3

**Institutional investors should monitor their investee companies.**

### Arcus Infrastructure Partners response

Arcus Infrastructure Partners is an active asset manager. For each asset acquired by the Fund it has allocated a senior individual with responsibility to manage the asset. To better monitor an asset's financial performance Arcus creates detailed financial models for each asset and then monitors actual results against forecast. The forecasts are reviewed annually following discussions with investee companies.

The asset managers and other senior asset professionals are appointed to the boards of unlisted assets and regularly monitor investee companies' governance, operational and financial performance. The boards will usually also approve the annual budget. Where applicable, we also meet and discuss overall performance and governance of an investee company with co-investors. In several instances we have worked with co-investors to improve governance structures and reporting provided to boards as part of our Toolkit.

In relation to the listed positions we do not wish to be made insiders so there can be no restrictions in the way we manage the position. We make this clear in our dialogue with investee companies. We also seek regular dialogue with boards and management of these companies in addition to attending shareholder meetings, investor days, briefings and other regular reporting provided by the companies.

#### Principle 4

**Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.**

##### Arcus Infrastructure Partners response

Arcus Infrastructure Partners has developed sound relationships with investee companies and believe that our views are considered seriously by them. We don't employ formal tools to evaluate these discussions but through our active management approach can monitor responses and outcomes achieved.

In relation to the unlisted assets we are able to hold discussions regularly on a formal or informal basis. Additionally by having seats on the board we can influence strategy and set key objectives for management that align with delivering shareholder value over the long term.

Regarding listed assets we actively seek to express our views, concerns and aims for the Fund's investments in those entities through discussions with management and/or key board representatives. In one instance we have an independent representative on a board to represent the Fund's views.

We feel that constructive dialogue usually brings about satisfactory results, however where we feel our concerns are not being dealt with we would consider making our views public or seek to act collectively with other institutional investors as set out in Principle 5 below.

#### Principle 5

**Institutional investors should be willing to act collectively with other investors where appropriate.**

##### Arcus Infrastructure Partners response

Arcus Infrastructure Partners would consider collective engagement where it believes such engagement is necessary to protect or enhance the Fund's investment.

In a number of unlisted investments held by the Fund there are co-investors with whom we collaborate on a regular basis to deliver long term value on those investments.

In relation to listed investments we are in active dialogue with a number of other institutional investors and would seek to collaborate with them if the situation, in our view, warranted such engagement. Each matter would be considered on a case by case basis.

## Principle 6

**Institutional investors should have a clear policy on voting and disclosure of voting activity.**

### Arcus Infrastructure Partners response

As Arcus Infrastructure Partners is an active asset manager we vote all our holdings. This applies where necessary with unlisted assets as much as voting at annual or extraordinary general meetings for listed assets.

We disclose our reporting to Fund investors on a quarterly basis.

## Principle 7

**Institutional investors should report periodically on their stewardship and voting activities.**

### Arcus Infrastructure Partners response

Arcus Infrastructure Partners is very transparent with the Fund investors on its activities. We report formally to Fund investors on a quarterly basis. A week after providing the quarterly report to investors Arcus Infrastructure Partners makes each asset manager available to investors to answer any specific questions investors may have in relation to our stewardship activities. Additionally further discussions are held at least quarterly with the Fund Advisory Board, which comprises the larger Fund investors, to deal with stewardship matters regarding Fund assets.

Fund investors also receive an annual report and are invited to attend an annual general meeting. The annual general meeting provides Fund investors further opportunity to question asset managers and key decision makers.

In addition we discuss our activities, where legally possible, with investors on an ad hoc basis should they have any question or concern that arises outside of the reporting process above.

As mentioned in Principle 6 we do not publicly disclose our voting record; however report to investors on issues and developments in relation to Fund investments.

Currently Arcus Infrastructure Partners does not obtain an annual assurance report on internal controls (e.g. AAF01/06 or SAS70) so will not seek external assurance regarding its engagement under the FRC Stewardship Code.