

UK STEWARDSHIP CODE

Response by Arcus Infrastructure Partners LLP – 2017

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BACKGROUND

Arcus is an independent, specialist fund manager focused on the European infrastructure sector. We provide our services to clients through entities authorised and regulated by the FCA.

Our first fund, Arcus European Infrastructure Fund 1 L.P. (“AEIF1”), is an unlisted fund with over €2 billion of commitments backed by over 30 institutional investors from around the world. AEIF1 invests in high quality infrastructure assets throughout Europe and we actively manage those assets to deliver long-term value for AEIF1’s investors.

Arcus also manages a further €1.4 billion for Investors on a managed account basis. The management services include, subject to the terms agreed with the relevant investor and with investor consent where applicable, sourcing, advising and arranging acquisition of equity or equity-like investments in the infrastructure sector, managing those investments, and ultimately arranging the disposal of the investments when considered in the best interests of Investors. Arcus is currently fundraising for a second fund, which will be Arcus European Infrastructure Fund 2 (“AEIF2”).

This document serves as Arcus’ 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.

We have responded to the principles in the context of our management of AEIF1 but the equivalent principles are and will be applied in relation to investments made by any other funds or other investment vehicles managed or advised by Arcus from time to time, including AEIF2. Terms used in this statement are defined in the glossary on page 7.

PRINCIPLE 1 - INSTITUTIONAL INVESTORS SHOULD PUBLICLY DISCLOSE THEIR POLICY ON HOW THEY WILL DISCHARGE THEIR STEWARDSHIP RESPONSIBILITIES.

ARCUS 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 AEIF1, we examine and consider not just economic factors and strategy but also areas such as governance arrangements, environment and social impact, service quality and sustainability as they influence long term value. Arcus has a companywide ESG policy, is a signatory to the United Nations Principles of Responsible Investment and is a member of the infrastructure to GRESB.

Arcus has designed and implemented a proprietary Asset Management Framework which outlines all asset management initiatives and serves as a toolkit for our team to ensure a consistent and repeatable approach across all our investments. The Arcus Asset Management Framework covers Shareholder Leadership, Management Excellence, Strategy & Operations and Finance & Reporting. The framework is 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. Currently all investments made by AEIF1, and we expect a significant majority of our investments in future, 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 AEIF1’s investment. We may, through future investments and in limited circumstances acquire stakes in listed companies. For any future 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

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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 WHICH SHOULD BE PUBLICLY DISCLOSED.

ARCUS RESPONSE

Arcus has a Conflicts of Interest Policy, within its Compliance Manual, appropriate to its nature, scale and complexity which is applicable to all Members and Employees. The policy sets out examples of where conflicts may exist, various prevention measures 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. Arcus has a duty to act in its Investors' best interests and is required to put the interests of its Investors ahead of its own and to ensure that all Investors are treated fairly.

Arcus is wholly owned by its Members and they have a material personal investment in AEIF1; therefore, our interests are strongly aligned to all the other AEIF1 Investors' interests. AEIF1 is operated in accordance with its Limited Partnership Deed.

At a minimum Arcus identifies conflicts of interest that arise in the course of conducting business between:

1. Arcus, its Members and Employees, AIFs or MiFID business and any Investor;
2. The AIFs or MiFID business or the AIFs or MiFID business Investors and another Investor of the AIFs or MiFID business or its Investors; or
3. One Investor and another Investor.

In order to determine whether a conflict of interest is applicable Arcus takes into account the following factors:

1. Arcus or any of its Members, Employees or Contractors is likely to make a financial gain, or avoid a financial loss, at the expense of the Investor;
2. Arcus or any of its Members, Employees or Contractors has an interest in the outcome of a service provided to an Investor, or a transaction carried out for an Investor, which is distinct from the Investor's interests in that outcome;
3. Arcus or any of its Members, Employees or Contractors has a financial or other incentive to favour the interests of one Investor over the interests of another Investor;
4. Arcus carries out the same business activities as the Investor; and
5. Arcus or any of its Members, Employees or Contractors will receive from a person other than the Investor an inducement related to a service provided to the Investor in a form other than standard fees for such service.

If a conflict of interest was identified which could not be avoided Arcus would put in place effective procedures to manage the conflict of interest to minimise the potential risk of damage to the interests of the Investor. Such procedures would include:

- Information barriers and other appropriate protocols;
- Segregation of functions;
- Independent supervision;
- Removal of direct remuneration incentives;
- Avoiding inappropriate influence being brought to bear in the way Investors are treated; - Operations of dual controls; and
- Policies in relation to Members, Employees and Contractors personal interests (e.g. Personal Account Dealing and Gifts and Inducements).

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If it was determined that a potential conflict of interest could not be managed using one of the above methods then the conflict of interest would be avoided by, e.g., declining to participate in the proposed transaction/activity; or updating the Stop List, which restricts the ability for Members, Employees and Contractors to enter into personal transactions in securities of particular companies.

The Management Committee may approve arrangements to manage the conflict for Arcus related matters and any MiFID business.

If a conflict was identified which could not be effectively managed with reasonable confidence to prevent the risk of damage to an Investor, Arcus would provide the Investor with information detailing the general nature and/or sources of conflict of interest before undertaking business with that Investor. Such disclosure would be made in a durable medium.

If an actual or potential conflict of interest arises in relation to AEIF1, Arcus also has contractual obligations to consult as applicable with the Advisory Board, made up of some of the largest AEIF1 Investors. Depending on the nature of the conflict, consent of the Advisory Board would be required in respect of the transaction to which the conflict relates. Similar arrangements will apply in relation to AEIF2.

The assessment of what disclosures are appropriate depends on individual facts and circumstances including: the nature of the conflict of interest, and the level of sophistication of the parties affected.

Additionally, AEIF1 is governed by a Supervisory Board which considers and makes decisions on all AEIF1 matters. 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 AEIF1.

PRINCIPLE 3 - INSTITUTIONAL INVESTORS SHOULD MONITOR THEIR INVESTEE COMPANIES.

ARCUS RESPONSE

Arcus is an active asset manager invested in unlisted assets. For each asset acquired by AEIF1 it has allocated a senior individual with responsibility to be the Asset Manager. It has also appointed one of the Members as Head of Asset Management to co-ordinate and ensure consistency in its approach to asset management. To better monitor an asset's financial performance Arcus creates detailed financial models and then monitors actual results against forecast. The forecasts are reviewed annually following discussions with investee companies.

Asset Managers and other senior asset management professionals are appointed to the boards of investee companies and regularly monitor governance, operational and financial performance. The boards will usually also approve the annual budget. In acquiring assets, Arcus ensures that it is entitled to exercise a high degree of control or, at least, significant influence over the relevant assets.

Asset Managers also review governance, strategy, returns and health and safety, and conduct quarterly risk reviews incorporating all of these areas which are reported on to the Fund Supervisory Board (in the case of AEIF1) and Management Committee.

As part of the origination process in any possible future investment Arcus would assess all of the aspects listed above before investing, and make improvements after acquisition where necessary.

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 Asset Management Framework.

Arcus is not a listed business, is primarily an unlisted investor and does not currently have any investments in listed entities. As a result, it does not apply the Corporate Governance Code but as an active asset manager we consider the principles of the Code in establishing and reviewing the governance of investee companies. In particular, our key focus areas are: leadership and separation of non-executive board members from day to day management; effectiveness of the board in monitoring the company and executive management performance in the context of private investments; risk management and accountability and executive remuneration.

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In relation to possible future investments in listed positions we do not wish to be made insiders so there can be no restrictions in the way we manage the position, (though we recognise that this is dependent on information we may be privy to) and do not ordinarily seek direct board representation. The desire not to be an insider is made clear in our dialogue with investee companies' management. 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. Should, through our asset management or origination, a requirement arise for us to become insiders or operate an insiders list we would do so and adhere to any regulatory requirements.

PRINCIPLE 4 - INSTITUTIONAL INVESTORS SHOULD ESTABLISH CLEAR GUIDELINES ON WHEN AND HOW THEY WILL ESCALATE THEIR STEWARDSHIP ACTIVITIES.

ARCUS RESPONSE

The relevant Asset Manager is appointed to the Board of each of our investee companies taking an active role in considering governance, risks, strategy, business plan, and to perform ongoing monitoring of financial operational matters and returns. Arcus has developed sound relationships with investee companies and the Asset Manager maintains regular contact (both formally and informally) and strong professional relationships with key investee company management and we believe that our views are considered seriously by them. We do not employ formal tools to evaluate these discussions but through our active management approach can monitor responses and outcomes achieved.

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.

Each Asset Manager, is also responsible for the preparation of information for Arcus to satisfy its reporting obligations to Investors, communicating effectively and on a timely basis, to provide updates on the performance of the investments for the purposes of quarterly and annual reporting.

If in the future we decided to invest in listed investments we feel, through previous experience, that direct constructive dialogue with management teams 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.

Due to the size of our usual investment we would not necessarily use alternative shareholder escalations envisaged by the Code. We would, however, use them in the following areas:

- Remuneration;
- Governance;
- Business strategy; and
- Board composition.

PRINCIPLE 5 - INSTITUTIONAL INVESTORS SHOULD BE WILLING TO ACT COLLECTIVELY WITH OTHER INVESTORS WHERE APPROPRIATE.

ARCUS RESPONSE

Arcus would consider collective engagement where it believes such engagement is necessary to protect or enhance AEIF1's investment.

In the unlisted investments held by AEIF1 there are co-investors with whom we collaborate on a regular basis to deliver long term value on those investments.

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

Collective bodies Arcus is a member of include the British Private Equity and Venture Capital Association, Invest Europe, the Global Infrastructure Investor Association, GRESB and Arcus is also a signatory to the United Nations Principles of Responsible Investment.

The contact details for Arcus for the purpose of collaboration amongst institutional investors are:

Mel Kirn, Head of Compliance or

Neil Krawitz, Head of Asset Management

+44 207 832 3400

PRINCIPLE 6 - INSTITUTIONAL INVESTORS SHOULD HAVE A CLEAR POLICY ON VOTING AND DISCLOSURE OF VOTING ACTIVITY.

ARCUS RESPONSE

As Arcus is a private active asset manager in unlisted investments, we vote on all our holdings. This applies to all assets at annual or extraordinary general meetings, Arcus votes as it deems appropriate whether that is in favour or against.

As Arcus generally holds significant interests in its investments (greater than 20% shareholdings) in unlisted private companies, material decisions relating to the investments generally require Arcus approval. Our confidential shareholder agreements in relation to the private investments set out delegated authorities given by the shareholders to the investee company boards which our board representatives then vote on when required in their capacity as board members. Where matters exceed or are outside of delegations, shareholders' resolutions are required to approve those matters, if acceptable.

Given the nature of unlisted investments and only investing in private companies, it is not always appropriate to disclose voting procedures [or events as voting] and matters being voted on would be confidential as required by the shareholder agreements in place with fellow shareholders and the investee company. We report quarterly on a private basis to our investors on material developments and events in our investee companies. We hold quarterly investor conference calls to discuss the quarter's performance incorporating the material board decisions. Investors have access on that call to direct any questions they have or at any time on an ad-hoc basis, including on how we have voted.

Where material events occur relating to Arcus' investments that can be disclosed in the public domain, Arcus makes announcements on its website.

Arcus does not utilise the services of a proxy or voting advisers.

Arcus does not make stock for any listed security available for stock lending.

We report our activities to AEIF1 investors on a quarterly basis (see response to Principle 7).

PRINCIPLE 7 - INSTITUTIONAL INVESTORS SHOULD REPORT PERIODICALLY ON THEIR STEWARDSHIP AND VOTING ACTIVITIES.

ARCUS RESPONSE

Arcus is transparent with AEIF1 Investors on its activities. We report formally to AEIF1 Investors on a quarterly basis.

The quarterly reports include information on the following:

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- AEIF1 investment activity and information on value of investments, capital deployed, fees charged, distributions, and investor returns;
- Significant AEIF1 related events, material risks and changes to management of AEIF1;
- Details of Advisory Board meetings during the quarter;
- Investment operational performance on an asset by asset basis including financial performance and KPIs and a description of the material events that occurred during the quarter relating to that investment; and
- Financial statements - Income statement, Balance sheet; and capital movements schedule.

A week after provision of the quarterly report to investors, Arcus 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 AEIF1 Advisory Board, which comprises some of the larger AEIF1 investors, to deal with stewardship matters regarding AEIF1 assets.

AEIF1 Investors also receive an annual report and are invited to attend an annual general meeting. The annual general meeting provides AEIF1 Investors further opportunity to question Asset Managers and key decision makers.

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

Arcus participates in the GRESB infrastructure Assessment and ESG benchmarking process. GRESB is an independent organisation which reviews, scores and ranks infrastructure funds and assets against peers. GRESB reviews the organisational approach to sustainability and ESG, which are topics which incorporate many elements of stewardship activities. GRESB scores and rankings are available to members of GRESB and Arcus makes its GRESB reports and scores available to its Investors.

As mentioned in Principle 6 we do not publicly disclose our voting record due to the sensitive nature of holding private investments; however, we do report to Investors quarterly on issues and developments in relation to AEIF1 investments.

Currently Arcus 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 given our focus on unlisted investments. AEIF1's annual financial statements are audited and our Investors, and prospective Investors, conduct due diligence on our investment management approach and stewardship activity on a regular basis.

GLOSSARY

In the policies and procedures, unless otherwise stated, the following expressions have the following meanings:

“Advisory Board”	A committee consisting of representatives of Investors in AEIF1/AEIF1, which will review, inter alia, AEIF1’s investment strategy and performance and any actual or potential conflicts of interest
“AEIF1”	Arcus European Infrastructure Fund 1
“AEIF2”	Arcus European Infrastructure Fund 2
“AIF”	The Alternative Investment Funds (as defined in the Alternative Investment Fund Managers’ Directive) managed by Arcus from time to time, including the AEIF1
“AIP”	Arcus Infrastructure Partners LLP
“Arcus” or “we”	AIP and its directly and indirectly controlled subsidiary undertakings
“Asset Manager”	The asset manager appointed by Arcus for each investment asset, having day to day responsibility for the services performed by Arcus in connection with that asset
“Contractor”	An agency worker or an independent contractor required to provide services on Arcus premises under the instruction or supervision of an Employee or Member
“Employee”	An individual with a contract of employment with Arcus
“ESG”	Environment, Social, Governance
“FCA”	Financial Conduct Authority
“GRESB”	The Global ESG Benchmark for Real Assets
“Investor”	An investor in AEIF1 or another fund or investment vehicle managed or advised by Arcus from time to time
“Management Committee”	The management committee of Arcus as constituted from time to time
“Member”	A member of AIP
“MiFID”	Markets in Financial Instruments Directive
“Stop List”	The list of companies maintained by Head of Compliance and Risk in which personal account trading is prohibited

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