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# Diversified Sustainable Income

Annual Report and Accounts  
2023

# Our purpose

Our purpose is to generate attractive and sustainable returns for a wide range of investors through responsible and disciplined investment into a growing portfolio of diverse economic infrastructure debt. These assets would otherwise be difficult for investors to access, given the specialist nature of the origination and credit assessment skills needed. Our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits across the range of geographies in which we invest.

Find out more at [www.seqi.fund](http://www.seqi.fund)





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### Sustainability

Read more about our ESG policy and goals on pages 24 to 40



### Market opportunity

Read more about our portfolio diversification on pages 8 and 9

# Highlights

- Annualised portfolio yield-to-maturity<sup>1</sup> of 11.9% (2022: 8.4%) as at 31 March 2023
- Dividends totalling 6.56p<sup>2</sup> per Ordinary Share (2022: 6.25p) paid in respect of the year in line with annual dividend targets in place
- Dividend cash cover<sup>1</sup> of 1.21x (2022: 1.06x)
- Diversified portfolio of 68 investments across eight sectors, 26 sub-sectors and 12 mature jurisdictions
  - 98% of investments in private debt (2022: 95%)
  - 58% floating rate investments (2022: 50%), capturing short-term rate rises
  - Short weighted average life of 3.5 years (2022: 4.1 years) creating reinvestment opportunities
  - Weighted average equity cushion<sup>1</sup> of 34% (2022: 33%)
- NAV total return of -0.9% (2022: 3.5%) in the year<sup>1</sup>
- Share price total return of -16.1% (2022: 4.5%) in the year<sup>1</sup>
- Ongoing charges ratio<sup>1</sup> of 0.96% (2022: 0.87%) (calculated in accordance with AIC guidance)
- ESG score of the portfolio is on a long-term and sustainable upward trend

## Financial highlights to 31 March 2023

**£1,617,853,302**

Total net assets  
(31 March 2022: £1,777,042,832)

**£1,394,794,921**

Market capitalisation  
(31 March 2022: £1,817,749,690)

**93.26p**

Net asset value ("NAV") per Ordinary Share<sup>1,3</sup>  
(31 March 2022: 100.50p)

**62.29**

ESG score of the portfolio  
(31 March 2022: 61.88)

**80.40p**

Ordinary Share price<sup>3</sup>  
(31 March 2022: 102.80p)

**(1.02)p**

(Loss)/earnings per share  
(31 March 2022: 2.87p)

**(13.8)%**

Ordinary Share (discount)/premium to NAV<sup>1</sup>  
(31 March 2022: 2.3%)

**6.5625p**

Dividends paid in respect of the year  
(31 March 2022: 6.25p)

1. See Appendix for Alternative Performance Measures ("APMs").

2. Includes the dividend paid in May 2023 in respect of the quarter ended 31 March 2023 and excludes the dividend paid in May 2022 in respect of the quarter ended 31 March 2022 (2022: includes the dividend paid in May 2022 in respect of the quarter ended 31 March 2022 and excludes the dividend paid in May 2021 in respect of the quarter ended 31 March 2021).

3. Cum dividend.

# Objectives and policies

## Principal activity

Sequoia Economic Infrastructure Income Fund Limited (the "Company") invests in a diversified portfolio of senior and subordinated economic infrastructure debt investments through Sequoia IDF Asset Holdings S.A. (the "Luxembourg Subsidiary") and Yotta BidCo Limited (the "UK Subsidiary") (all together the "Fund" or "SEQI"). The Company controls the Subsidiaries through holdings of 100% of their shares.



## Investment policy

The Company's investment policy is to invest in a portfolio of loans, notes and bonds in which no more than 10% by value of the Fund's net asset value (at the time of investment) relates to any one individual infrastructure asset. In addition, the Company intends to invest directly or indirectly only in investments that satisfy the following criteria, such investments to make up a minimum of 80% by value of the portfolio at the time of investment:

- all or substantially all of the associated underlying revenues to be from business activities in the following market sectors: transport, transportation equipment, utilities, power, renewable energy, accommodation infrastructure and telecommunications, media and technology infrastructure;
- all or substantially all of the revenues to derive from certain eligible jurisdictions, as defined in the Company's Prospectus, provided that any such jurisdiction is rated at least BBB- by Standard & Poor's or Baa3 by Moody's;
- at least 50% of the portfolio to be floating rate or inflation-linked debt;
- no more than 20% of the portfolio to comprise pre-operational projects (typically projects in construction);
- no single sector to represent more than 40% of total assets;
- no single sub-sector to represent more than 15% of total assets, other than a major sub-sector (as defined in the Prospectus), which may represent up to 25% of total assets;
- no more than 60% of the portfolio to be located in the United States;
- no more than 50% of the portfolio to be located in Western Europe (ex-UK);
- no more than 40% of the portfolio to be located in the United Kingdom; and
- no more than 20% of the portfolio to be located in Australia and New Zealand combined.



## Investment objective

The Company's investment objective is to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments, subject to the investment criteria as set out in the investment policy.



## ESG policy

As part of its sustainability strategy, the Company has established an appropriate ESG Policy, which it takes into account at all stages of its investment process. The policy sets out the global initiatives that guide its overall ESG principles, such as the United Nations Principles for Responsible Investment ("UNPRI"), to which the Investment Adviser is a signatory. The Company's ESG Policy also outlines the specific regulatory frameworks it adheres to and the governance framework in place. The policy gives more information on how the Company applies ESG principles to investments, including details of its ESG scorecard and engagement with borrowers on ESG matters. Here, the Company formally states its climate pledge and three ESG Goals for the Fund.



## Dividend policy

On 24 November 2022, the Board resolved to increase its annual dividend target from 6.25p to 6.875p. As a result, with effect from the dividend relating to the quarter ended 31 December 2022, and in the absence of any significant restricting factors, the Board expects to pay dividends totalling 6.875p per Ordinary Share per annum. The Company pays dividends on a quarterly basis.

For further details, please see note 4 to the Financial Statements.



# Chair's statement



**Robert Jennings**

Chair



Resilient performance  
despite volatile market



Dear Shareholder,

It is my pleasure to present to you the Annual Report and Audited Financial Statements of the Company for the financial year of operations ended 31 March 2023. In the absence of unforeseen circumstances, this will be my final report to you as your Chair, as I am now in my ninth year.

The financial year saw interest rates rise at almost unprecedented speed, as central banks strove to tame rapidly rising inflation. This led to an increase in credit spreads and tighter lending conditions globally.

This environment has resulted in mixed fortunes for the Company, as our NAV declined on the back of higher rates, but our income increased due to the high proportion of floating rate investments in the portfolio – this enabled us to increase its dividend by 10%, to 6.875p per Ordinary Share, starting in January 2023. Less pleasingly, our share price fell to below its NAV – this is an unwelcome development, largely driven we believe by sentiment towards the wider alternative income sector rather than a specific reflection of the attractiveness of the Company. Nonetheless, we have taken a number of measures to limit the discount to NAV.

## NAV and share price performance

Over the financial year, the Company's NAV per Ordinary Share<sup>1</sup> decreased from 100.50p to 93.26p, after paying dividends of approximately 6.41p, producing a NAV total return<sup>1</sup> of -0.9% (2022: +3.5%), compared to our target return of 7-8%.

The decline in the NAV is mostly down to the mark-to-market effect of higher interest rates and credit spreads, which rectifies itself as loans move closer to repayment. If we were to hypothetically disregard this effect, the NAV total return<sup>1</sup> for the year would have been over 6%. It could be argued that this 6% return represents the true underlying performance, since this decline in marks is an unrealised loss, much of which should substantially reverse itself over time through the pull-to-par effect. In other words, as our loans approach their maturity date, their marks will inevitably (absent any credit event) rise towards their par value. As interest rates start to plateau gradually, this represents a helpful tailwind to our NAV in the years ahead.

1. See Appendix for Alternative Performance Measures ("APMs").

Moreover, we have once again outperformed the liquid credit markets, with high yield bonds generating total returns of -4.7%, and leveraged loans -4.2%, over the same period, compared to -0.9% in our case.

The Company's share price also declined over the year, from 102.80p to 80.40p, a share price total return<sup>1</sup> of -16.1% (2022: +4.5%), once dividends are taken into account. This was almost entirely a result of the decline in the rating of the shares, from a premium<sup>1</sup> of 2.3% at the beginning, to a discount<sup>1</sup> of 13.8% by the end of the year.

We are disappointed in this fall in our share price, which we believe is predominantly a result of investors' concerns over rising interest rates, high inflation, a sluggish global economy and geopolitical risks, as well as technical factors specific to investors but unrelated to the Company, such as the consequences of redemptions from their own funds. We do not believe it is a reflection of the fundamental attractiveness of the Company – all our peers in the infrastructure and debt sectors also trade at a discount. However, we are not complacent and the following measures were put in place from an early stage to address this issue:

- an active buy-back programme, with 33.4 million Shares repurchased over the financial year, which we have continued since the year end. Not only does this partly address the excess supply of shares in the market, but most notably the purchases are accretive to NAV;
- ongoing Share purchases by the Directors of the Company and Sequoia Investment Management Company Limited (the "Investment Adviser") and its directors. In total, 1,609,258 Shares were bought by insiders during the year;
- a 10% increase in the dividend, keeping pace with UK inflation, which should improve the attractiveness of the Company to investors looking for strong income; and
- enhanced investor communication including a revamped website ([www.seqi.fund](http://www.seqi.fund)), a well-attended investor capital markets day and numerous meetings with individual investors.

## Dividend

As noted above, on the back of higher short-term interest rates, which has resulted in increased income from the Fund's investments in floating rate loans, we were able to increase our dividend by 10%, from 6.25p per Ordinary Share to 6.875p per Ordinary Share. This increase took effect from January 2023. As in previous years, the dividend remains fully cash-covered.

For the time being, we intend to hold the pay-out at its current level. However if, as we anticipate, our interest income continues to increase, further strengthening our dividend cash cover ratio, we will review the situation again later in 2023 in the context of our ambition to pay out a sustainable and attractive level of income to our Shareholders.

## Portfolio performance

Most of our portfolio has performed well over the course of the year, with many sectors previously adversely affected by COVID-19 improving materially. Specifically, the Fund's exposures to the transportation sector (excluding aviation), student accommodation and midstream assets all improved in credit quality, while other sectors such as telecommunications and healthcare infrastructure remained robust.

Of the three non-performing investments identified a year ago, one has now been exited, albeit at a loss. That leaves only Bulb Energy and a loan backed by the property at 4000 Connecticut Avenue, Washington DC (formerly called Whittle Schools). Progress has been made on these two investments, which represent only 3.3% of NAV. The Investment Adviser discusses these specific transactions in more detail in the NAV and Fund Performance section of its report.

While most of the bonds and loans in our portfolio are performing in line with expectations, some 10% of our portfolio, including the two aforementioned loans, are receiving enhanced scrutiny by our Investment Adviser. The Board has closely reviewed these positions and is comfortable that their current marks, which are generated by our Investment Adviser and independently reviewed by our valuation agent

PricewaterhouseCoopers, and our Auditor Grant Thornton, fairly reflect the current value of these positions.

During the financial year, the Investment Adviser has had a highly selective approach to new investments. In general, we have prioritised investments in lower-risk parts of the infrastructure market, which typically have only a moderate or low correlation to the economic cycle, such as businesses with a high degree of contractual income. While net leverage has increased due to the substantial effect the foreign exchange market's volatility has had on the Fund's hedging book, we have refrained from drawing too much on the Company's revolving credit facility ("RCF") and are now rebuilding liquidity reserves – in part, because having low net leverage is clearly prudent in turbulent markets.

## A retrospective review of the Company since its IPO

The Company has now been in operation for slightly more than eight years since its IPO on 3 March 2015. As my tenure as Chair is nearing its end, this seems like a natural time to reflect on the Company's performance.

**Firstly**, it is clear that the Company's strategy, as set out in its very first Prospectus before the IPO, was both attractive to investors and successfully implemented. Through 11 well-supported capital raises, the Company grew approximately 12-fold and became a constituent member of the FTSE 250. This scale has produced some important benefits for investors, including:

- lower costs, since the fixed costs of the Fund are spread over a larger capital base and the Investment Adviser's fee has reduced in percentage terms through a fee-tapering mechanism;
- reduced risk due to an increase in diversification;
- increased access to investment opportunities thanks to our ability to fund larger, more important, infrastructure projects; and
- greater "pricing power" in the loan terms that we offer to the companies we finance.

1. See Appendix for Alternative Performance Measures ("APMs").



# Chair's statement continued

## A retrospective review of the Company since its IPO continued

**Secondly**, the Fund has operated through some turbulent times, which have helped to demonstrate the robustness of infrastructure debt as an investment class. Periods of high volatility in the liquid credit markets; COVID-19 lockdowns followed by a recession or a near-recession; the Ukraine war; ultra-low interest rates followed by a normalisation of rates at an almost unprecedented speed; and periods of both abnormally low and abnormally high energy prices have all challenged us. That is a lot in only eight years!

During all this, we have of course had some loans default. That is a natural part of running a loan portfolio – it would be naïve to imagine that the Fund could keep lending money in perpetuity without experiencing some bad debts. However, as the chart below shows, our proportion of defaulted loans is much lower than both the broader credit markets, and indeed comparable infrastructure lending.

Note that within this calculation we are including not just the actual defaults we have experienced but also cases when we have sold loans at a loss to avoid a further deterioration in credit quality and the likelihood of a default in the future.

Moreover, when we have had a default, we have on average recovered more than other lenders. This means that our “loss rate” (i.e. annualised credit losses, expressed as a percentage of the loan book) is very low indeed, at approximately 0.56% per annum. This number includes not just realised losses but projections of future losses, which have not yet come to pass, on non-performing loans.

**Thirdly**, the Company has been able to earn its target yield on its investments, net of costs, and this has enabled us to pay a growing and cash-covered dividend. In its eight years, the Company has met every dividend payment and target.

**Fourthly**, as discussed below, the Company has adopted a market-leading ESG policy. This has involved implementing ESG scoring, exiting some non-compliant investments, targeting new investment sectors, engagement with borrowers and a high (and growing) level of sustainability reporting.

Our goal on ESG is to be a market leader, not a follower. We believe that by acting today we are positioning the Company for success in the future, and this is what our investors want.

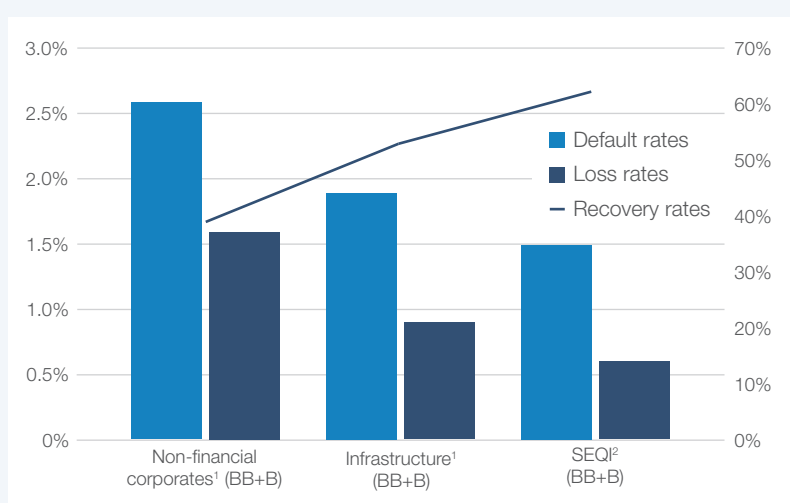
## Liquidity

One important, but easily overlooked, aspect of listed funds is the importance of having sufficient liquidity. This is especially true for companies such as ours that invest in illiquid private assets. Liquidity can be needed to meet potential margin calls on FX hedging, finance share buy-backs and manage borrowing and funding investment commitments.

We derive liquidity through cash sitting on the balance sheet, the undrawn portion of the RCF, the natural high level of cash generation arising from our investment portfolio and a reasonable number of liquid investments, typically rated infrastructure bonds.

I am pleased to say that the Company has remained liquid at all times since its inception. This is because we are cautious by nature and conservatively assess our liquidity requirement. In response to the deteriorating market conditions over the opening months of the financial year, in September 2022, the Board and the Investment Adviser agreed that it would be beneficial to increase liquidity via targeted asset sales. Over the last nine months since then, the Investment Adviser has cumulatively raised £460 million through sales and loan redemptions. This has provided funds to support our share price through our buy-back programme and has allowed our Investment Adviser to make selective purchases at attractive prices of more liquid infrastructure bonds and broadly-syndicated leveraged loans.

## Defaults and losses: SEQI compared to Moody's data for corporates and infrastructure benchmarks



1. Infrastructure and Project Finance: Infrastructure default and recovery rates, 1983-2021. The SEQI figures are produced by us and cover the period from the inception of the Fund to 31 March 2023.

## Environmental, social and governance (“ESG”)

This year has seen continued progress on the development of the Company’s approach to ESG. We have focused on applying the comprehensive ESG policy which we published in June 2021, and refreshed earlier this year, across all of our portfolio and deal pipeline. Our policy sets out in detail our approach to asset selection and portfolio construction, as well as broader themes such as how we can engage with our borrowers on ESG-related matters.

We continue to report under Article 8 of the EU Sustainable Finance Disclosure Regulation (“SFDR”) directive.



In February 2023 we were delighted that our Investment Adviser won the 2022 global award for Best ESG Infrastructure Investment Strategy by Capital Finance International (“CFI”), in recognition of its progress against its ESG commitments and framework.

Overall, the portfolio has shown progression during the year from an average score of 61.88 to 62.29. A significant number of the lowest-scoring loans have been sold or allowed to roll off at their maturity, and most of our new investments generally score higher than the ones they replace. Generally, we expect this trend to continue, and believe that our scoring framework will allow us to continue to allocate more capital towards sectors and borrowers who demonstrate appropriate environmental, social or governance characteristics. However, because we are willing to lend to borrowers who are seeking finance transition programmes to improve their ESG metrics, sometimes from a relatively low base, it is not a given that our portfolio’s average ESG score will improve at every future reporting date.

For the third year running we have mandated KPMG LLP to provide independent limited assurance of our portfolio’s overall ESG score, which we believe is indicative of our intention to raise standards of rigour in the qualification of ESG credentials across portfolios of loans.

As noted in my review last year, the Board wrote to all the Company’s key service providers to request information about the management of their carbon footprints and the steps they are taking to reduce these over time. We were greatly encouraged to discover that the majority of our larger key service providers have already set up impressive programmes to monitor and reduce their carbon intensity.

We also put in place a programme to offset our emissions from our own activities, such as the difficult-to-avoid ones relating to flights to and from Guernsey. This programme is financed by a voluntary levy on Directors’ fees and by contributions from some of our key suppliers, most materially from our Investment Adviser.

The credits we acquired during 2022 are expected to be sufficient to offset estimated corporate-level emissions for 2022 and, pending verification of the Peatland Code certified units due for conversion in 2025, for 2023 and 2024 as well.

Overall, I continue to believe that the policies that our Investment Adviser is operating and developing firmly establish us at the forefront of ESG thinking in the context of an infrastructure debt-focused fund.

### Board succession plans

In previous Chair’s statements, I have discussed Board succession planning, and I would now like to introduce Fiona Le Poidevin, who joined the Board in January 2023, having previously been the Chief Executive Officer of The International Stock Exchange Group and, before that, the Chief Executive of Guernsey Finance, the promotional body for Guernsey’s finance industry internationally. Fiona is a Chartered Director, a Fellow of the Institute of Directors and a Chartered Accountant and brings a wealth of experience in listed funds. Going forward, Fiona will chair the Company’s Audit Committee.

I would like to thank Sarika Patel, who has diligently served as a Director of the Company for two years and is now stepping down for personal reasons at this year’s AGM. She has brought many years of experience to the Board and has contributed significantly to the Company’s success and we wish her the best for the future. The process to recruit a replacement for Sarika is already underway.

Of the original four Directors on the Board at the time of the Company’s IPO in March 2015, only two now remain, Sandra Platts and I. In accordance with best practice, it is anticipated that we will both retire from the Board in due course.

Profiles of the Board and our consultants are on pages 52 to 53 and 55.

### Outlook

As noted above, we are taking advantage of credit markets that are currently favourable to debt providers. As loans mature, we are able to redeploy capital at higher returns for less risk, and improve our cash yield and average credit rating on our portfolio. Tight lending conditions, across not just the banking sector but also the liquid credit markets (specifically the high yield and leveraged loan markets) mean that the Investment Adviser can be extremely selective in the opportunities it chooses to pursue.

In general, not only do the assets that we add to the portfolio carry attractive yields, but they also:

- improve the average credit quality of the loan book, for example by targeting senior over subordinated debt, and defensive over cyclical sectors;
- improve the balance of the portfolio by investing in parts of the infrastructure market where the Fund currently has no or little exposure; and
- improve the portfolio’s ESG profile.

In addition, higher yields available in the market have allowed the Investment Adviser to add investments (typically rated infrastructure bonds) to our liquid asset bucket.

We believe that this approach will position us well to deliver attractive and sustainable returns for Shareholders.

We will also continue to monitor our Share price closely and, where appropriate, to engage in limited Share buy-backs. The rate at which we buy back Shares will flex depending on various factors, including the level of our Share price discount to NAV. We believe that buying in Shares at greater discounts will generate Shareholder value over the long term, even if it means that the size of our portfolio has to fall somewhat over the interim.

I would like to end by noting that the Company has demonstrated its resilience throughout the challenges of the last eight years. Our well diversified portfolio, growing interest income and disciplined approach to capital deployment give us confidence for our future.

**Robert Jennings**  
Chair

28 June 2023

# Market opportunity

## Sectors in which we invest

### Utilities

The utility industry includes companies that supply essential services such as the distribution and transmission of electricity, natural gas and water. Utilities serve as a public good and often have monopolistic characteristics, and as a result, are typically highly regulated. Other examples would be pipelines in the midstream oil and gas sector, which are essential to the transportation of commodities between the point of extraction and consumption. Utility companies are normally defensive, as the businesses are capital intensive, enjoy very high barriers to entry, and their revenues are resilient through the economic cycle. Utility company revenues are also not normally directly linked to commodity prices.

### Power

In the power sector, the Fund mainly invests in base load and energy transition assets. Base load projects sell electricity all or most of the time and take on merchant risk (usually mitigated by hedging). Energy transition projects, such as "peaker plants", are only expected to operate for part of the year, when electricity prices spike, but receive standby payments from grid operators. Energy transition projects have an intrinsic ESG strength of facilitating higher levels of renewable energy. Attractive energy assets are characterised by strong asset backing and a high percentage of contracted revenues - the Fund generally targets companies with low exposure to unhedged power prices. All projects are assessed based on their competitive positioning in the merit order curve and must be able to demonstrate solid operational performance.

### Renewables

Over the course of the last decade, renewable energy has grown materially as governments and investors started to realise the need for sustainable energy sources. From 2021, countries worldwide have continued to pursue decarbonisation plans, despite a global pandemic and an economic recession. The renewable growth trend is expected to continue going forward as more countries, including the US, join the Paris Climate Accord which aims to achieve the goal of net-zero carbon emissions by 2050. The Fund finances a wide range of renewable energy assets including both ground-mounted and rooftop solar, wind turbines, hydro-electricity, geothermal electricity and energy from waste projects. Typically, renewable energy projects benefit from long-term electricity purchase agreements and government support schemes such as ROCs in the UK and Investment Tax Credits ("ITCs") in the US.

## Principal activity

The Company's investment objective is to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments.

The Fund principally invests in private operational projects with a proven record and stable cash flows, spread across 8 sectors and 26 sub-sectors, reducing exposure to any one sector or business cycle.

It aims to capture the illiquidity premium offered by private debt investments, with select exposure to liquid, publicly traded debt. The majority of the Fund's portfolio consists of bilateral loans and club deals, for which the Investment Adviser negotiated favourable terms for the Fund to enable its risk-adjusted returns.



### Accommodation

In the accommodation sector, the Fund mainly invests in specialist healthcare assets such as learning disability care homes. Healthcare assets are fundamental to societies and have a non-discretionary demand profile as governments have a statutory duty to provide these services to their citizens. The industry is highly regulated, non-cyclical and has high barriers to entry. Most healthcare businesses derive their revenues from governments and municipalities. The Fund also invests in selective student housing opportunities in countries where there are student housing shortages, such as the Netherlands. The Fund is able to achieve attractive risk-adjusted returns in those jurisdictions.

### Technology, Media and Telecommunications (“TMT”)

The opportunities we are seeing across the digital sector stem from the exponential growth in demand for data. There are numerous well-documented trends as well as further advancements in technology which will continue to act as significant tailwinds to the sector. Good connectivity is essential in the world we live in and society has leapt forward in its digitalisation journey. The essentiality of core assets (fibre, towers and data centres) within digital networks has been accentuated due to the unfortunate circumstances brought about by the pandemic. Our investments in the sector have been chief benefactors of these positive dynamics as valuations have strongly appreciated across the space. The Fund’s experience in the sector includes hyperscale data centres with blue-chip tenants, global portfolios of mobile phone towers and an undersea data cable linking the US with Australia and New Zealand.

### Transport/Transport Assets

In the transportation sector, the Fund lends to owners of long-term assets such as roads, ports, airports and railways. These benefit from high barriers to entry and may have quasi-monopolistic characteristics. They are well positioned to generate highly predictable revenue streams. In some cases, these revenues are regulated, meaning that they are subject to government oversight and pricing controls to ensure fair and equitable access to transportation services, which provides further comfort around debt serviceability. In the transport assets sector, the Fund finances rolling stock, aircraft and shipping. These types of assets typically have a high replacement cost and a long economic life. In many cases, these assets will be on long-term leases, which provides a high degree of certainty of income.

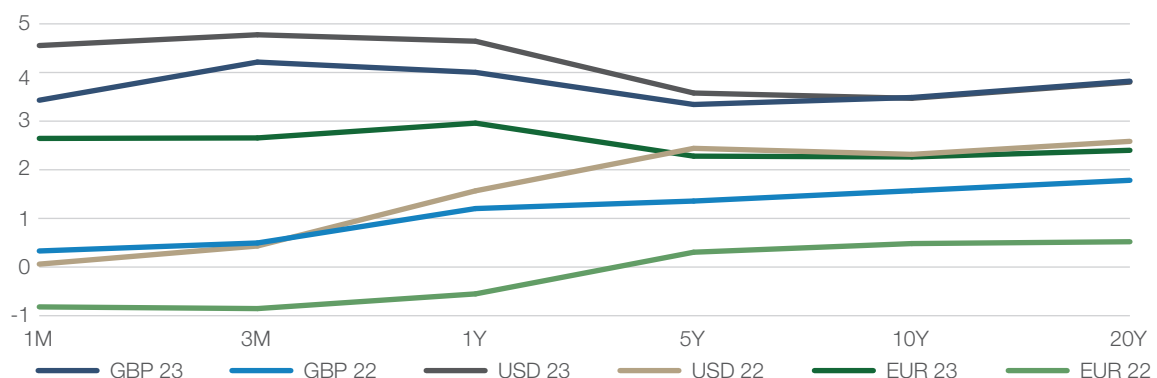
## The market environment during the year

The financial year saw a rapid normalisation of interest rates, as central banks strove to bring inflation under control by aggressively increasing policy rates. These changes to policy rates were the fastest seen since the early 1980s. At the end of the financial year, yield curves were flat and slightly inverted, as long-term government bond yields did not quite increase to the same extent as short-term rates.

Credit spreads (especially for sub-investment grade debt) also rose materially over the year, as high inflation, increasing interest rates, the risk of recession and geopolitical themes all preyed on investors’ minds. Investors were reluctant to allocate capital given the lack of pricing stability – new issuance in both the high yield bond markets and the leveraged loan markets fell by over 80% compared to the previous year. The overall effect is that lending conditions were “tight” with new debt transactions being priced with high margins and fees and stricter credit terms than have been seen for many years. Refinancing activity therefore fell materially, and many borrowers worked with their lenders to extend the maturity of their existing facilities.

In the broader economy, high inflation led to margin contraction and an erosion of profits for many companies. The energy markets remained volatile and globally growth was lacklustre, with several major economies being close to technical recessions.

As with the previous year, this has been a challenging environment for many asset classes, including private debt. In its report, the Investment Adviser discusses how the Fund has fared and how the investment portfolio is well positioned for some of the challenges and opportunities that investors will face in the future.





# Business model

## Driven by our purpose

Our purpose is to generate attractive and sustainable returns for a wide range of investors through responsible and disciplined investment into a growing portfolio of diverse economic infrastructure debt.

These assets would otherwise be difficult for investors to access, given the specialist nature of the necessary credit rating and advisory skills needed. Our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits across the range of geographies in which we invest.



## Investment process

### Step 1:

#### Origination

- Identify market opportunities in sectors and jurisdictions with strong credit characteristics and attractive relative pricing
- Leverage relationships with lending banks and infrastructure owners

### Step 5:

#### Acquisition and monitoring

- Investment Adviser executes the trade once the recommendation is approved
- Execution of appropriate currency hedge as necessary
- All ongoing credit monitoring and updates including the Investment Committee reviews are sent to the AIFM
- Every asset is monitored semi-annually at a minimum, and more frequently when required
- Annually, the Board undertakes a full portfolio review, with a separate session dedicated to focus loans (determined by risk profile), in addition to quarterly Board reviews

### Step 4:

#### Investment approval process

- Full credit memorandum and valuation/yield analysis is provided to the Investment Committee for review
- A unanimous investment decision is required in order to make the recommendation to the Alternative Investment Fund Manager ("AIFM")
- Investment Committee minutes and material credit documentation are submitted to the AIFM for detailed review and referred to the Board as appropriate for approval and sign-off

## Risk management

### Credit review framework

Escalation criteria are in place requiring Risk Committee and Investment Consultant review of investments possessing certain characteristics. AIFM has full discretion to approve or decline investments.

### Risk Committee

is comprised of independent non-executive Directors. Read more on page 60.

### Independent AIFM Risk Manager

Detailed review of all investment recommendations and material developments with borrowers.

## Sustainability

### Step 2:

#### Initial screening

- Eliminate assets unlikely to pass investment approval, including review of ESG credentials
- Identify strong credits for inclusion in shortlist for full analysis

### Step 3:

#### Detailed credit analysis

- Due diligence and credit process
- Site visits, meetings with management, as appropriate
- Run proprietary analytical models if applicable
- Determine risk characteristics and mitigants
- Ensure no diversification, concentration or other limits are broken

### Financial

The Company's NAV performance and dividend cover can be found on pages 15 and 16.

### Governance

Details of the Company's governance framework and the activities of the Board during the year can be found on pages 56 to 61

### Environmental and Social

Details of the Company's sustainability strategy and the approach taken in applying its principles to its business activities are described in the sustainability section on pages 24 to 40.

## Financial outcomes

# 6.56p

The Company has paid dividends totalling 6.56p per share in respect of the financial year, in line with its dividend targets in place at the time of payment.

# £1.72bn

The Fund's investment portfolio was valued at c.£1.72 billion at the year end.

# 1.21x

The Company's cash dividend cover<sup>1</sup> for the financial year was 1.21x.

# -0.9%

Total NAV return<sup>1</sup> for the year was -0.9%.

## Robust governance

### Effective Board oversight

Details of Board composition, committee structures and the Company's internal controls and risk management systems are set out in the corporate governance report on pages 56 to 61.

### Financial management

Details of the arrangements for ensuring the integrity of the Company's system of internal financial controls and financial reporting processes is set out in the report of the Audit Committee on pages 67 to 67.

1. See Appendix for Alternative Performance Measures ("APMs").

# Investment Adviser's report

“Portfolio yield-to-maturity up from 8% to over 11% in the year”

## The Investment Adviser's objectives for the year

Over the course of the financial year, Sequoia Investment Management Company Limited (“Sequoia” or the “Investment Adviser”) has had the following objectives for the Fund:

Goal	Commentary	Achieved
<b>Gross portfolio return<sup>1</sup> of 8-9%</b>	The Fund is fully invested with a portfolio that yields <sup>1</sup> in excess of 11%, compared to 8% as at 31 March 2022, the increase being primarily driven by increases in long-term interest rates during the year	✓
<b>Manage the portfolio responsibly through an inflationary and rising interest rate environment</b>	The Fund has continued to position its portfolio beneficially considering the rise in interest rates and has increased the floating rate proportion of its portfolio from 50.1% at 31 March 2022 to 58.4% at 31 March 2023	✓
<b>Follow a sustainable investment strategy</b>	The Fund has improved the overall ESG score of its portfolio from 61.88 to 62.29 <sup>2</sup> by allocating capital to higher-rated opportunities and selling off legacy investments	✓
<b>Timely and transparent investor reporting</b>	Factsheet, commentary and the full portfolio have been provided monthly for full transparency, with increased investor engagement over the year	✓
<b>Continue to improve the ESG profile of the Fund and the portfolio</b>	The Fund's pioneering ESG approach was recognised by investors when the Investment Adviser won the 2022 global award for Best ESG Infrastructure Investment Strategy by Capital Finance International	✓
<b>Dividend target of 6.875p per Ordinary Share per annum, increased by 10% from 6.25p per annum starting in Q3</b>	The Company paid two quarterly dividends of 1.5625p and two of 1.71875p per Ordinary Share in respect of the year, in accordance with the increased dividend target, amounting to a total of 6.5625p	✓

1. See Appendix for Alternative Performance Measures (“APMs”).

2. ESG score is included in the scope of KPMG LLP's limited assurance (see [www.seqi.fund/investors/documents-circulars](http://www.seqi.fund/investors/documents-circulars)).



## Economic infrastructure is a diverse and highly cash-generative asset class

Economic infrastructure debt is a type of investment that is widely recognised for its stability and reliability. This asset class is characterised by several key features that make it attractive to investors. Firstly, there are high barriers to entry, which means that it is difficult for new players to enter the market, creating a certain level of protection for existing investors. Secondly, the cash flows generated by economic infrastructure debt are typically stable and predictable, providing a steady income stream to investors. This is due to the essential nature of the services provided, which ensures a consistent level of demand. Finally, the physical assets that support economic infrastructure debt provide tangible collateral that can be used to secure the investment. These features have made economic infrastructure debt an increasingly popular asset class among investors seeking a stable source of income and a reliable long-term investment.

Economic infrastructure debt sectors such as transportation, utilities, power, telecommunications and renewables are often supported by long-term concessions or licences to operate infrastructure assets. Projects in these sectors typically earn their revenues from demand, usage or volume, such as a data centre's revenue depending on the number of clients using its services. This contrasts with social infrastructure, such as parks and hospitals, which are often compensated for the physical asset simply being available for use.

To mitigate demand risk, economic infrastructure projects are typically less highly geared than social infrastructure and have higher equity buffers, more conservative credit ratios, stronger loan covenants, and higher levels of asset backing for lenders. This has remained true during the financial year, and SEQI's investment opportunities continue to be based and analysed on these characteristics.

Despite market volatility during the period, the Fund took pre-emptive actions to position its portfolio defensively for potential downturns, such as targeting mainly floating rate assets, focusing on senior debt, and favouring non-cyclical industries. These measures helped mitigate risks from the lingering effects of the COVID-19 pandemic, the current inflationary market and opposing rate hikes, and other global uncertainties, such as Russia's war with Ukraine.

Overall, economic infrastructure debt remains an attractive asset class with stable cash flows and high barriers to entry. As sustainability continues to be a key investment topic, SEQI notes that investing in new economic infrastructure is often necessary for the implementation of the latest technologies and manufacturing processes into existing industries. This creates an abundance of ESG-incorporating investment opportunities, benefiting not only SEQI's portfolio but also the modernisation of otherwise high barrier-to-entry sectors.

## The market environment during the year

Despite the fundamental stability of infrastructure debt as an asset class, the broader financial markets experienced significant turbulence over the year, which has inevitably impacted the valuations of the Fund's investments. For instance, the FTSE All-Share Index, representing the overall London equity market, increased by 2.5%, while the FTSE 250, tracking mid-cap companies, declined by 8.1% during the period. 10-year Gilts (UK government bonds) decreased by 11.0%, leveraged loans declined by 4.2%, and high yield bonds fell by 4.7%. These figures include dividends or interest income, providing a total return for the period.

The deterioration in financial markets resulted from several factors, such as high inflation, global supply chain disruptions and rising interest rates. The COVID-19 pandemic continued to impact economies worldwide, and investors displayed a high level of risk aversion, requiring higher interest rates and credit spreads as compensation for elevated risk. Some markets, such as high yield bonds, experienced significant volatility, with year-on-year new issuance declining.

The Fund's portfolio of private debt is impacted by interest rates and credit spreads in liquid markets. While weakness in high yield bond markets negatively affects in the valuation of the Fund's investments, the Fund also benefited from weak markets, as infrastructure businesses had fewer options for raising capital, and the pricing power enjoyed by the Fund increased. This translated to higher lending margins, better credit terms, or both, which benefited the Fund's overall performance. Despite the challenges, the Fund's investments in infrastructure debt continue to provide investors with an attractive risk-return profile.

## Portfolio overview

Our strategy for the period has been to continue building and managing a diversified portfolio of private debt investments backed by infrastructure assets in low-risk jurisdictions. We aim to maintain our target returns with a focus on avoiding excessive credit risk. Throughout this period, we continued to employ cautious investment strategies that were put into place in 2019. These strategies involve maintaining a large portion of the portfolio in defensive sectors, prioritising senior debt over mezzanine debt, and maintaining or gradually improving the portfolio's credit quality.

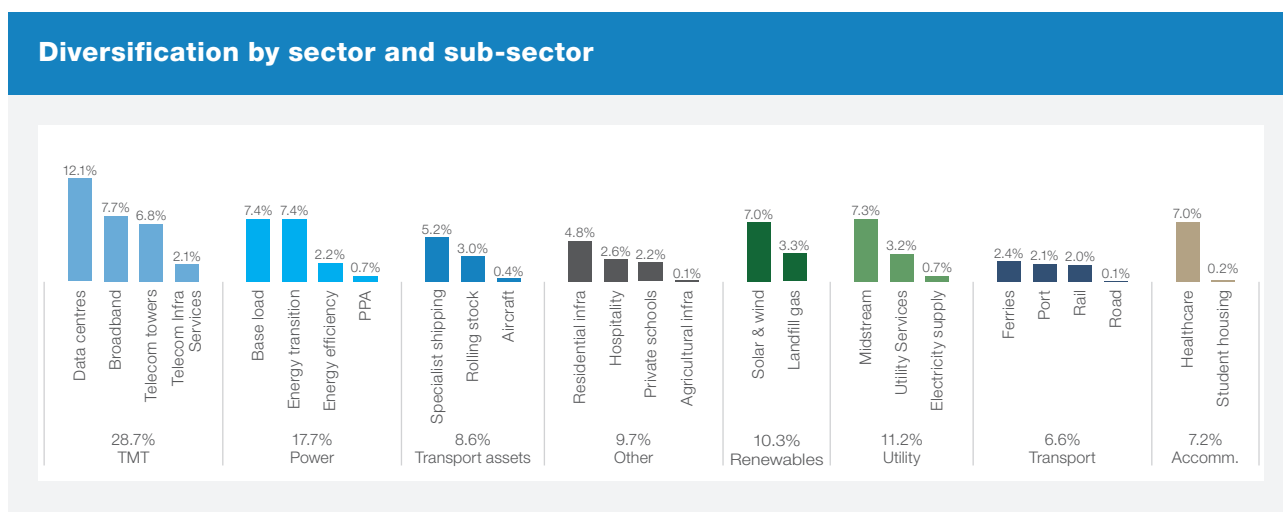
# Investment Adviser's report continued

## Portfolio overview continued

The economic outlook for the period ahead remains uncertain, with concerns over inflation and the impact of rising interest rates on global growth. Despite these challenges, our diversified approach to private debt investing has helped us to achieve solid returns and manage risk effectively. As a result, we have been able to take advantage of new opportunities to lend to high-quality infrastructure projects. Following this strategy, we believe that we can continue to generate attractive returns for our investors while mitigating risk in a challenging market.

- We have 57.6% of the portfolio in defensive sectors. These include telecommunications, accommodation, utilities and renewables, which are viewed as defensive because they provide essential services, often operate within a regulated framework and have high barriers to entry.
- Our telecommunications sector, which stands at 28.8% of the portfolio, continues to perform as previous PIK assets become cash-paying and the appetite for infrastructure such as data centres grows.
- We have 57.2% of the portfolio in senior and 42.8% in mezzanine as opposed to more of a 50-50 blend to position the portfolio better for a slow-growth environment.
- We have maintained the credit quality of the portfolio over the last 12 months while still achieving our target yield. We have continued our policy, instituted shortly after SEQI's launch in March 2015, not to invest in CCC profile names.
- We have maintained a low modified duration<sup>1</sup> of 1.5 with 58.4% of the portfolio in floating rate deals and investing in short-term fixed rate assets, which currently have a low weighted-average life of 3.5 years.

The Fund's investment portfolio is diversified by borrower, jurisdiction, sector and sub-sector, with strict investment limits in place to ensure that this remains the case. The chart below shows portfolio sectors and sub-sectors on 31 March 2023:



The Fund has a clear focus on investing in stable and low-risk regions, which is in line with its investment criteria. As a result, it limits its investment activities to countries that meet certain standards, such as being classified as investment-grade. The Fund's investment philosophy is centred around identifying opportunities that offer attractive risk-adjusted returns while avoiding potential pitfalls, such as regulatory and legal risks. While the Fund is exploring potential investments in Spain, it has decided not to pursue investment opportunities in Portugal or Italy, as these markets are perceived to be more challenging due to a combination of economic, regulatory and legal risks. The Fund may revisit this opinion in the future.

The Fund's investment strategy is primarily focused on private debt, which is the largest asset class in its portfolio. This approach is driven by the fact that private debt typically offers an illiquidity premium, which means it yields higher returns than liquid bonds with similar characteristics. Since the Fund's main investment strategy is a "buy and hold" approach, it makes sense to capture this illiquidity premium. This is supported by Sequoia's research, which indicates that infrastructure private debt instruments typically yield about 1% more than public, rated bonds.

Despite its focus on private debt, the Fund also considers bonds as an attractive investment option in certain situations. For example, some bonds may be structured as "private placements", offering attractive yields that are comparable to loans. Additionally, some sectors, such as US transportation, primarily borrow through the bond markets, which means having an allocation to bonds can improve the diversification of the portfolio. Lastly, having some liquid assets in the portfolio enables the Fund to take advantage of future opportunities while avoiding the costs associated with holding cash.

1. See Appendix for Alternative Performance Measures ("APMs").

## NAV and Fund performance

The Fund takes a cautious approach to its investment activities, particularly when it comes to greenfield construction risk. While the Fund is willing to allocate up to 20% of its NAV to lending for such projects, its actual exposure to assets in construction<sup>1</sup> as at 31 March 2023 was 14.2% of its portfolio. The Fund selects projects carefully and only invests in those where it believes it is well-compensated for the moderate level of construction risk taken. Furthermore, the Fund has strict criteria when judging the underlying strength of the borrower's business or project to ensure that the potential risk is mitigated. Over the financial year, the Company's NAV per share<sup>1</sup> decreased from 100.5p per share to 93.26p per share ex-dividend, driven by the following effects:

Factor	NAV effect
Interest income on the Fund's investments	10.61p
Gains on foreign exchange movements, net of the effect of hedging	0.19p
Negative market movements	(9.86)p
IFRS adjustment from mid-price at acquisition to bid price	(0.24)p
Operating costs	(1.71)p
Gains from buying back shares at a discount to NAV	0.18p
<b>Gross decrease in NAV</b>	<b>(0.83)p</b>
Less: Dividends paid during the year	(6.41)p
<b>Net decrease in NAV after payments of dividends</b>	<b>(7.24)p</b>

The total return on the NAV<sup>1</sup> was equal to -0.9% over the period. Whilst this is a disappointing outcome, it ought to be analysed in the context of the wider market. The portfolio has outperformed leveraged loans by 3.3%, high-yield bonds by 3.8%, the FTSE 250 by 7.2% and 10-year Gilts by 10.1%.

As discussed elsewhere, the main positive contribution to NAV performance was interest income earned on the investments; the main negative contribution was price declines in investments, driven predominantly by increases in discount rates (i.e. interest rates plus credit spreads) and, to a much lesser extent, credit losses. In fact, over 86% of the price decline in the year, excluding the realised loss on Salt Lake Potash, was attributable to increases in discount rates. These are unrealised losses that are expected to reverse over time through the pull-to-par effect.

The Investment Adviser believes that the portfolio is well positioned to continue to outperform the liquid credit markets for the following reasons:

- private debt has higher yields (by approximately 3% a year) than liquid credit, for a like-for-like credit quality;
- in addition, debt backed by infrastructure is especially resilient given the sector's inherently defensive attributes, including strong asset backing. This is reflected in our lower loss rates than liquid credit, again for a like-for-like credit quality;
- mitigation of interest rate sensitivity through a significant proportion of floating rate debt in the portfolio (58%), resulting in a low level of sensitivity to changes in interest rates;
- relatively short debt maturities, allowing the fund to rapidly recycle capital in the currently attractive lending markets; and
- a high level of portfolio diversification by investing across various sectors, sub-sectors, and jurisdictions, thereby minimising the impact of country-specific political and economic risks.

1. See Appendix for Alternative Performance Measures ("APMs").



# Investment Adviser's report continued

## Share performance

As at 31 March 2023, the Company had 1,734,819,553 Ordinary Shares in issue. The closing share price on that day was 80.4p per share, implying a market capitalisation for the Company of approximately £1.4 billion, compared to £1.8 billion a year previously.

After taking account of dividends paid during the year of 6.40625p, the share price total return over the period was -16.1%. This decline in the share price is driven by two factors:

- the decline in NAV as discussed above; and
- a decrease in the rating of the shares from a 2.3% premium<sup>1</sup> to a 13.8% discount<sup>1</sup>.

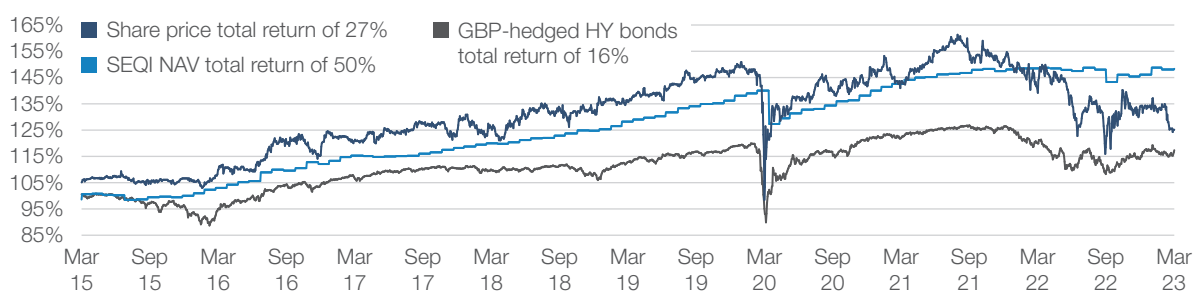
The rating decrease of the Fund is due to negative market sentiment towards debt funds, which has also affected the majority of alternative income vehicles listed on the LSE. The concerns over inflation and increasing interest rates have contributed to this sentiment, which is further compounded by long-term economic prospects. Both the Investment Adviser and the Company's Directors consider the current share price discount as disproportionate. They believe that it does not reflect the investment portfolio's potential for generating attractive risk-adjusted returns during uncertain periods or its long-term prospects. With this conviction the Fund has been repurchasing Ordinary Shares, as it considers the shares to be undervalued, and such repurchases are accretive to our NAV.

## Dividend cover

The Company has paid 6.40625p in dividends during the last 12 months in accordance with its target. It is worth noting any declared quarterly dividend is paid out to investors in the following quarter. Therefore, this financial year consisted of three annualised 6.25p per Ordinary Share dividends and one increased annualised 6.875p per Ordinary Share dividend. The fourth quarter dividend payment will be accounted for in the first quarter of the financial year 2023/24.

The level of dividend cash cover<sup>1</sup> has been increasing and has reached 1.21x for the financial year 2022/23, which is a significant improvement from 1.06x for the prior year. The increase is due to a combination of rising short-term rates, as reflected in the uplift in the yield-to-maturity<sup>1</sup> from 8.4% to 11.9%, and interest being received in cash that was previously capitalised, known as "PIK interest". The Investment Adviser expects further PIK interest to materialise as loans repay.

## Total return<sup>1</sup> since the inception of the Company to 31 March 2023



1. See Appendix for Alternative Performance Measures ("APMs").

## Fund performance

		31 March 2023	30 September 2022	31 March 2022
Net asset value	per Ordinary Share	<b>93.26p</b>	93.64p	100.50p
	£ million	<b>1,617.9</b>	1,634.9	1,777.0
Cash held (including in the Subsidiaries)	£ million	<b>68.7</b>	38.2	94.1
Balance of RCF	£ million	<b>181.8</b>	193.0	121.4
Invested portfolio <sup>1</sup>	percentage of NAV	<b>106.5%</b>	116.0%	95.0%
Total portfolio <sup>1</sup>	including investments in settlement	<b>109.6%</b>	121.3%	101.5%

## Portfolio characteristics<sup>2</sup>

		31 March 2023	30 September 2022	31 March 2022
Number of investments		<b>68</b>	72	76
Valuation of investments		<b>1,723.5</b>	1,924.5	1,804.5
ESG score		<b>62.29</b>	61.59	61.88
Single largest investment	£ million	<b>61.0</b>	64.3	64.7
	percentage of NAV	<b>3.8%</b>	3.9%	3.6%
Average investment size	£ million	<b>25.3</b>	25.0	23.7
Sectors	by number of invested assets	<b>8</b>	8	8
Sub-sectors		<b>26</b>	28	29
Jurisdictions		<b>12</b>	11	12
Private debt	percentage of invested assets	<b>98.1%</b>	96.3%	94.7%
Senior debt		<b>57.2%</b>	59.2%	53.6%
Floating rate		<b>58.4%</b>	56.9%	50.1%
Construction risk <sup>1</sup>		<b>14.2%</b>	12.3%	13.1%
Weighted-average maturity	years	<b>4.1</b>	4.6	5.2
Weighted-average life	years	<b>3.5</b>	3.9	4.1
Yield-to-maturity <sup>1</sup>		<b>11.9%</b>	11.2%	8.4%
Modified duration <sup>1</sup>		<b>1.5</b>	1.6	2.1

1. See Appendix for Alternative Performance Measures ("APMs").

2. Relates to the portfolio of investments held in the Subsidiary.

# Investment Adviser's report continued

## Credit performance

At an overall portfolio level, the credit performance over the year remained positive, except for the aviation sector which was still affected by the COVID-19 pandemic. However, higher energy prices, even when combined with volatility, had a positive impact on the power generation, renewable energy and midstream sectors.

The current inflationary environment could also prove beneficial to infrastructure assets, as businesses can increase their revenues by linking the cost of the product or service provided to inflation while maintaining a constant level of leverage. However, this is a double-edged sword that could hit borrowers by increasing their internal costs as well, leading to an unexpected increase in expenses. In particular, investments exposed to construction risk are particularly affected, as projected budgets might be overrun. Continued monitoring of such exposed assets to ensure debt serviceability is maintained is an essential part of analysing the portfolio's credit performance.

In the Company's 2022 Annual Report, we highlighted three investments that were facing significant credit issues, namely a private school in Washington DC, a UK energy supply business, and a potash project in Australia. We have since exited most of the potash project, with only a small residual facility remaining, and the profit share on the project has been valued at nil. The non-performing loans incurred a net cost of 1.82p per Ordinary Share during the period, the majority of which can be attributed to the potash facility. The status of the two remaining non-performing loans is as follows:

## 1. US private school

A loan secured on a large building in a prime area in Washington D.C., originally occupied by a private school under a long-term lease agreement. Mostly as a consequence of the COVID-19 pandemic, enrolments at the school declined to the point where it could not cover its operating costs, which ultimately led to its insolvency. The loan was amended and extended in May 2022 to allow the borrower to deliver on its business plan after the COVID-19 pandemic but the school failed to recover and was then formally evicted from the property on 19 October 2022. The owner of the property continues to market it to other potential tenants, predominantly in the education sector, with an encouraging early response from a number of educational and governmental entities. However, the commercial real-estate market continues to suffer globally as a result of reduced demand, remote work, economic uncertainty, and shifts in consumer behaviour. All these factors have contributed to a valuation decline during the year. As at 31 March 2023, the value of this loan is 2.2% of the portfolio.

## 2. UK energy supply company

The Investment Adviser has made substantial progress on recovering value from the Fund's loan to Bulb Energy, a UK energy supply company. During the year, the Company became the majority shareholder, through a partial debt-for-equity swap, of Zoa, a newly formed business set up to market Bulb's best-in-class software to energy supply companies in the UK and elsewhere. The Fund still maintains a claim on the assets of Bulb and its parent Simple Energy and has recovered c.£14 million in cash since Bulb went into administration. The combined value of the Fund's shares in Zoa and its loan to Bulb is 1.1% of the portfolio.

## Net leverage

The net debt of the Fund has increased from £27.3 million to £113.1 million as a result of an increase in drawings on the Company's revolving credit facility from £121.4 million to £181.8 million and a decrease in cash holdings from £94.1 million to £68.7 million. This increase in net leverage is mainly due to the volatility and devaluation of Sterling currency experienced over the financial year. As Sterling lost value, the Fund's non-Sterling assets gained value in Sterling terms. However, the Fund remains currency-hedged, and hence the value of its hedging book falls by roughly the same amount. Eventually, as the Fund's currency hedges approach their maturity dates, the Fund needs to settle them by paying cash, a factor which caused the increase in net leverage during the year.

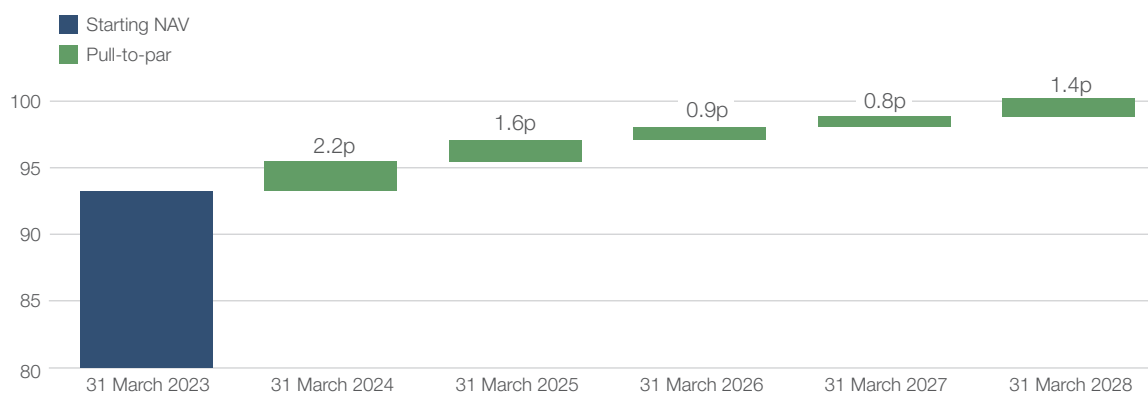
The Company has repaid a portion of the revolving credit facility with the capital repayments it has received, resulting in additional capacity to manage future volatility in exchange rates, while simultaneously reducing cash drag on non-invested capital.

## Portfolio valuation

Currently, the average loan in the portfolio is marked at a price of about 88 pence in the pound; this mostly reflects the higher interest rates and credit margins used to value the loan, compared to those available in the market at the time the loan was made.

Over time, as these loans approach their repayment dates, their valuations will accrete back up to 100 pence in the pound – this is the so-called “pull-to-par” effect, the value of which is shown in the graph below:

### ‘The pull-to-par effect’



These NAV estimates are calculated on the basis that interest rates and bond yields remain constant and does not take into account NAV-accretive mechanisms other than the pull-to-par; the only variable is the passage of time. Non-performing loans are excluded from the calculation.

In monetary terms, the pull to par is expected to be material:

Period	Pull to par (£m)	Pull to par (pence per share)
1 April 2023 to 31 March 2024	38.4	2.2
1 April 2024 to 31 March 2025	28.0	1.6
1 April 2025 to 31 March 2026	16.3	0.9
1 April 2026 onwards	37.6	2.2



## New origination case study

# AP Wireless US HoldCo ("AP Wireless")

6%

Yield-to-maturity

USD 75.0 million

Size

During the year, the Fund invested an additional USD 5.8 million in the existing AP Wireless facility, taking its total position to USD 75 million. AP Wireless is one of the largest international aggregators of rental streams underlying wireless sites through the acquisition of wireless telecom real property interests and contractual rights. The underlying assets of AP Wireless are mission-critical infrastructure for the telecom operators. The business has a 10-year track record showing churn of less than 25 bps per year. The business primarily leases assets to investment grade counterparties with strong geographic and counterparty diversification. The cash flows are on long-term contracts and benefit from annual fixed escalators.

The Company has built a strong relationship with AP Wireless over the last seven years through participation in several financing transactions including the international HoldCo loan, and has supported the business through its growth. Radius acquired AP Wireless for USD 860 million in 2020 through a combination of cash, shares and assumption of debt. In March 2023, it was announced that EQT and Canada's PSP agreed to acquire Radius in a USD 3 billion transaction.

### Link to ESG



Enabling the transition to  
a lower carbon world







### Origination activities

The investment strategy of the Fund involves investing in both primary and secondary debt markets. This approach offers several advantages: investing in the primary market enables the Fund to earn upfront lending fees and customise its investments to align with its requirements, while purchasing assets in the secondary market facilitates the swift deployment of capital into seasoned assets with demonstrable performance.

### Primary market origination

The Fund continues with its focus on the primary loan markets, which remain an important opportunity. The Investment Adviser has been able to source bilateral loans and participate in "club" deals, where a small group of lenders join together. Additionally, the Fund has participated in more widely syndicated infrastructure loans.

Primary market loans are appealing since they often come with favourable economics. As the lender, the Fund benefits from upfront lending fees and improved term negotiability. With the growth of the Fund, its primary market investment activity has increased and has now surpassed secondary market investments. As at 31 March 2023, 87.5% of the portfolio consists of primary investments.

### Secondary market origination

Although the Company has been focusing on primary market investments, it continues to acquire some of its investments from banks or other lenders in the secondary markets. This has allowed not only for faster deployment of capital, as primary market transactions in infrastructure debt can often take a considerable amount of time to execute, but also provides the Fund with more liquid assets, providing optionality when times require more cash at hand.

Furthermore, secondary market loans have a performance history that allows for credit analysis based on actual results rather than financial forecasts. Research indicates that infrastructure loans tend to improve in credit quality over time, so in many cases, secondary loans have improved in credit quality from the time of their initial origination.

### Primary and secondary investments since IPO



## Strengthening the team at Sequoia Investment Management Company

Within the past year, the Investment Adviser has expanded its team by hiring two new team members.

Matt Dimond, who has joined as Head of Client Capital, will be working with investors, evaluating strategies, and has expertise in real asset investments. Matt previously held senior roles at InfraRed Capital Partners and Swiss Life.

Leah Dean joined as a new Associate and will focus on ESG matters.

Leah has previously worked as a Language and Behaviour Analyst at AKO Capital before starting her role at the Investment Adviser. The Fund is committed to sustainable investing and is dedicated to complying with regulatory requirements while engaging with borrowers on ESG topics. With Leah's addition to the team, the Fund will be better equipped to stay up to date with the constantly evolving ESG landscape, assess the current portfolio for possible enhancements, and offer assistance to investors with any enquiries they may have.

## Strong pipeline of opportunities

While the Investment Adviser has been largely focusing on monitoring existing positions, it is also seeing a wide range of attractive potential investments which are being considered. With weak high yield bond and leveraged loan markets coinciding with the current risk aversion dominating bank lending, borrowers are more willing to accept the additional pricing power enjoyed by alternative debt providers. As such, improved terms can be negotiated than those typically available in times of abundant bank lending, which feeds through to favourable conditions for investors such as higher interest rates, fees, covenants and collateral provision.

Our strategy is to take advantage of these attractive lending conditions while adhering to our previously mentioned late cycle strategies, which in the current market provides us with higher yields for the same quality of assets compared to last year or similar yields with improved asset quality. As the Investment Manager is satisfied with the current yield composition of the portfolio, the focus has been primarily on improved asset quality. Preference is therefore given to assets with the following characteristics:

- senior debt, as opposed to mezzanine or holdco lending, which provides additional security over collaterals;
- defensive sectors, or borrowers with a high degree of contractual or predictable income, as opposed to businesses exposed to the economic cycle;
- assets that will maintain or improve portfolio diversification;
- operational projects, as opposed to construction projects, as these have improved visibility over cash flows; and
- BB or better implied credit quality.

With this selective approach to new investments and limited funds, we are turning down over 90% of the lending opportunities we come across. Nonetheless, our portfolio provides security for the volatile markets ahead as we continue to prioritise quality, diversity and cash generation.

## Allocation of capital in today's market

Since the year end a number of loans have been sold or redeemed, which has substantially eliminated our leverage position. We intend to use our balance sheet strength to pursue new lending opportunities that meet the aforementioned characteristics and to continue our share buy-back programme, given the current discount of our Share price to NAV.

## Sequoia Investment Management Company Limited

Investment Adviser

28 June 2023



# Sustainability

The Sequoia Economic Infrastructure Income Fund (“SEQI”) has a comprehensive approach to ESG.

During the year, the Fund continued to enact its environmental policies and strategies in compliance with its ESG Policy. The policy explains our ESG principles and how these are applied to investments; our processes to integrate ESG into every stage of investment decision-making; how we engage with borrowers; and the global initiatives that overlay our approach. We review the policy at least annually and last updated it in November 2022. The latest SEQI ESG policy can be found here:

[www.seqi.fund/sustainability/publications](http://www.seqi.fund/sustainability/publications).

This sustainability report provides an update on the commitments we have made to advance progress towards a sustainable future and to further evolve ESG at the Fund. Here, we also report on some of the key developments over the financial year 2022/23 and share clear, transparent ESG-related disclosures with our Shareholders.

## Key highlights from the year

- Increase in the portfolio’s weighted average ESG score, up for the third year running from 59.61 in 2020 to 62.29 in 2023
- Third year of independent limited assurance of SEQI’s ESG scores by KPMG
- Record 92% response rate by portfolio companies to our annual ESG questionnaire
- Investment Adviser awarded Best ESG Infrastructure Investment Strategy 2022 globally by CFI
- Additional reporting on our Climate Pledge, UN SDGs, and SFDR Article 8 disclosures
- The Company and its Investment Adviser offset their calculable internal GHG emissions
- Following establishment in March 2022, three more ESG and Stakeholder Engagement Committee meetings took place during FY 2023 with full attendance
- Appointment of independent consultant to the ESG and Stakeholder Engagement Committee
- Investment Adviser appointed first dedicated ESG lead

## Our ESG Goals

[Read more on page 26](#)

We have three ESG Goals:

1. Strictly comply with negative screening criteria.
2. Progress thematic investing (positive screening).
3. Over time, increase portfolio weighted average ESG score.

We periodically report on the Fund's progress against these goals in this annual sustainability report.

## Our Climate Pledge

[Read more on page 29](#)

The Fund has made 10 pledges that lay out its commitment to environmental sustainability. Here, we also highlight some of our work or key milestones in relation to these pledges.

## Case study

[Read more on page 32](#)

Each year, we discuss the ESG profile of one of our investments. This year's report features Workdry International Ltd, the UK's leading provider of mission-critical water and wastewater handling infrastructure leasing solutions.

## UN Sustainable Development Goals ("SDGs")

[Read more on page 34](#)

Through investments in private infrastructure debt that are governed by the Fund's ESG policy and investment criteria, the Fund aims to align with nine of the United Nation's SDGs.

## Regulatory reporting

### Task Force on Climate-Related Financial Disclosures ("TCFD")

[Read more on page 35](#)

The Fund firmly believes that high-quality climate disclosure is essential for all Shareholders making long-term investment decisions. Here, we outline the Fund's summary of the TCFD disclosures made for financial year 2022/23.

### Sustainable Finance Disclosure Regulation ("SFDR")

[Read more on page 124](#)

SEI reports under SFDR and is an Article 8 fund that seeks to promote ESG characteristics, with a focus on environmental, but it does not have sustainable investment as its objective. More information can be found in our Periodic Disclosure, which is annexed to the 2023 Annual Report, as is the Fund's Principal Adverse Impact Statement. The Fund's SFDR disclosures are also available on the website.

## Global initiatives

### UN Principles for Responsible Investment ("PRI")

In May 2019, the Fund's Investment Adviser, Sequoia Investment Management Company, signed up to the UN PRI. This proponent promotes six high-level principles, which are fully incorporated into the Fund's investment processes and decisions. Our Investment Adviser's public Transparency and Assessment Reports are available on the UN PRI website, and they will be reporting again in the 2023 cycle.

### UN Global Compact

SEI's business and its investment activities are operated in accordance with the 10 principles of the UN Global Compact.



# ESG Goals: Progress report

## 1. Strictly comply with negative screening criteria

The following sub-sectors or asset types are excluded:

- Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities, and facilities involved in tar sands. Note that midstream assets such as pipelines are not necessarily excluded but are subject to ESG scoring as set out below.
- Infrastructure related to mining thermal coal.
- Electricity generation from coal.
- Military infrastructure, such as military housing.
- Alcohol, gambling, tobacco and pornography are already excluded by SEQI's investment criteria.

For the financial year 2022/23, we can confirm that SEQI did not have any exposure to any of these sub-sectors or asset types and thus achieved 100% compliance with our negative screening criteria.

## 2. Progress thematic investing (positive screening)

SEQI has three ESG investment themes. Positive screening will be employed to increase the Fund's exposure to these investment themes, subject to existing concentration limits.

- Renewable energy, such as solar, wind and geothermal generation, and directly related businesses including companies that supply renewable energy.
- Enabling the transition to a lower carbon world, such as grid stabilisation, electric vehicles, traffic congestion reduction, and the substitution of coal by gas.
- Infrastructure with social benefits, which provides for basic human needs (such as clean water and food security) or brings a positive change by addressing social challenges and inequalities (such as healthcare, education and affordable housing) or advancing society as a whole (such as progressing telecommunications).

As at 31 March 2023, thematic investing covers 72% of SEQI's investment portfolio. Below is the breakdown across each theme as well as some anonymised investment examples in each:

13.3%

### Renewable energy

- A diversified US renewables business
- Offshore wind turbine repair vessels
- US residential roof solar panel business
- Spanish solar power portfolios
- Ground-mounted solar projects in Poland
- UK landfill gas

30.0%

### Enabling the transition to a lower carbon world

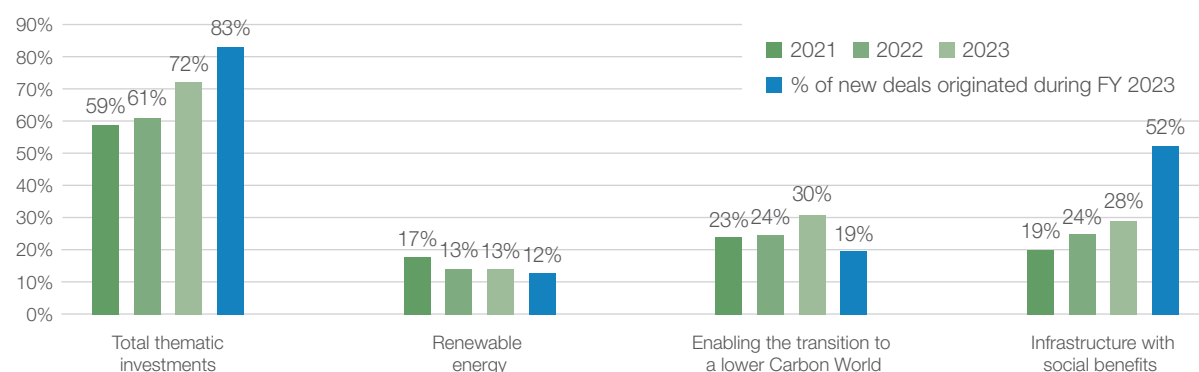
- German combined cycle gas turbine plant
- Grid enhancement assets such as peaker plants
- US gas pipelines and other midstream assets
- Nordic specialist shipping of liquid natural gas
- Efficient transportation projects reducing congestion

28.4%

### Infrastructure with social benefits

- Telecom towers
- UK healthcare specialists
- Student housing in a range of jurisdictions
- Broadband providers connecting residents and businesses to fibre
- Essential and emergency water handling solutions

## Thematic investments



### 3. Over time, increase portfolio weighted average ESG score

Some infrastructure assets (for example, the electricity grid) are neither excluded through negative screening nor positively selected through thematic investing; therefore, it is necessary to have a methodology to assess the ESG profile of these projects.

The ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the “direction of travel”. For example, a business that currently significantly contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution.

The ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower’s credit rating (for example, weak corporate governance has a negative contribution to credit quality) but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile, and vice versa.

To facilitate ESG scoring during the investment process, the Investment Adviser designed an ESG scoring model that must be completed prior to bringing a new investment to the Investment Committee.

The intention also is to provide the credit analysts a guide for ESG considerations at the earliest stages of due diligence. Implementing the ESG model at the beginning of the deal lifecycle will flag assets with weaker ESG credentials much earlier. After origination, there is regular subsequent monitoring of ESG performance and a semi-annual review of the score for every investment. Finally, the scoring methodology and model have been calibrated such that renewable energy projects with the most robust social and governance practices would receive a score of 100, and a power plant that burns thermal coal with no redeeming social or governance policies would receive a score of 0. Needless to say, the coal-fired power plant in this example would not make it past the Investment Adviser’s new business committee nor would it have reached this point of the investment process given the negative screening criteria.

For details of how the ESG score is compiled and derived, please see our ESG policy and publication of the ESG Scoring Procedures and Methodology here:

[www.seqi.fund/sustainability/publications](http://www.seqi.fund/sustainability/publications).

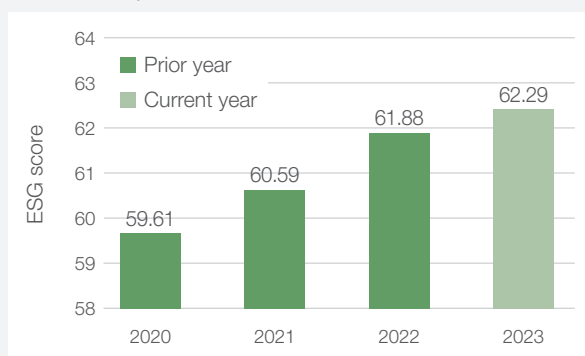


# ESG Goals: Progress report continued

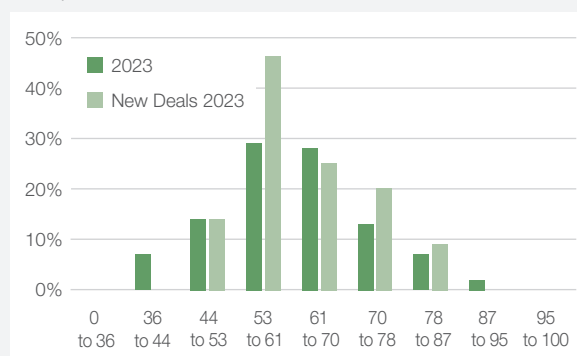
## 3. Over time, increase portfolio weighted average ESG score continued

### ESG scores as at 31 March 2023

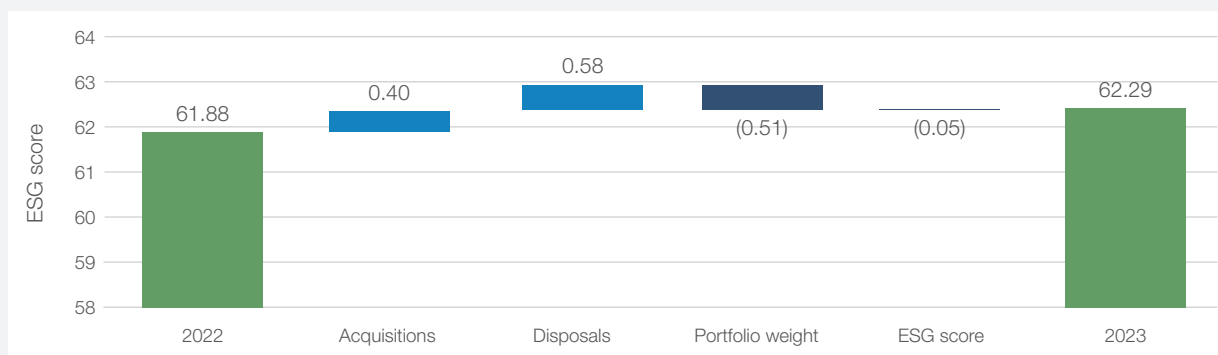
The portfolio's overall ESG score increased for the third consecutive year to 62.29<sup>1</sup> as at 31 March 2023.



The chart below represents a comparison of the portfolio's ESG profile between 31 March 2022 and 31 March 2023.



The main reasons for the change in the weighted average score from 61.88 the previous year to this year's score of 62.29<sup>1</sup> are summarised in the chart below:



#### Acquisitions: The effect of new investments

As at 31 March 2023, we held around £290 million of new investments acquired during the year with a weighted average ESG score of 64.29<sup>1</sup>. The higher ESG score of the new loans results from the effective application of our ESG principles in our investment process. Some of the high-scoring new loans include: (i) a 66MW portfolio of ground-mounted solar projects in Poland, (ii) a provider of essential and emergency water handling infrastructure solutions in the UK, and (iii) a national provider of complex care services for adults, young people and children in the UK.

#### Disposals: The effect of removing the maturing and sold positions from the portfolio

Disposals were the most significant contributors to the score improvement during the year. Since March 2022, around £370 million of loans with a weighted average ESG score of 59.11 were removed from the portfolio. Disposals included an oil midstream company in Sweden (the lowest ESG scoring in the portfolio) and a ship-owning company.

While the Company is not in control of unscheduled repayments, we expect the long-term impact of repaying credits on the portfolio's ESG score to be positive due to pre-existing and weaker ESG investments reaching maturity or being sold and the proceeds being re-invested in higher-scoring assets.

#### Portfolio weight: The effect of changes in the weights of the loans on the portfolio

The resultant 0.51 negative impact comes from the increased weighting of low-ESG-scoring loans and the reduction in weight of high-ESG-scoring loans, though this was skewed by a high-scoring borrower going into administration.

#### ESG score: The effect of changes in ESG score

Throughout the year, there were upward and downward revisions in the ESG scores of borrowers that came from changes in their behaviour (such as the implementation of effective environmental policies), furthering our requests for evidence, and events that unfolded during the year (such as the issuance of a fine for an outdated waste code).

1. ESG score is included in the scope of KPMG LLP's limited assurance (see [www.seqi.fund/investors/documents-circulars](http://www.seqi.fund/investors/documents-circulars)).

# Our Climate Pledge

## 1. We support the goals of the Paris Agreement to limit the global average temperature increases to well below 2°C and to pursue efforts to limit the temperature increase to 1.5°C.

We have made progress in collecting data from companies we lend to in order to start to better gauge alignment with the Paris Agreement. We also continue our engagement with borrowers and have started to identify areas of improvement that we aim to work with the companies on over the course of the year; some of these action plans would be supportive of the goals of the Paris Agreement.

## 2. We support the goal of the world reaching net-zero carbon emissions by 2050.

There are several initiatives in place to progress the measurement and reduction of our carbon emissions, some of which are outlined below.

### Carbon initiatives at the Company and Investment Adviser

#### Supplier engagement

The Board has taken steps to assess the Company's carbon footprint by engaging with each of its key suppliers on their ESG activities, with a particular focus on the steps being taken by each to reduce their greenhouse gas emissions.

#### Business travel

Where possible, the Company and Investment Adviser look to replace international business travel with video conferencing. For instance, some Board Committee and other ad hoc meetings have been held online in place of requiring flights to Guernsey, where appropriate.

The Investment Adviser promotes healthier journeys to work and seeks to reduce environmental pollution caused by travel through, for example, its bike-to-work scheme, where loans are offered to employees wishing to purchase cycles and associated safety equipment as a tax-free benefit.

#### Carbon offsetting

The Board recognises carbon offsetting as the last stage of an effective net-zero strategy. To this end, the Company has acquired credits in schemes issued through the Gold Standard marketplace, which provides an "off-the-shelf" route for organisations to acquire credits which can be retired immediately as part of their emissions reduction strategy. The Board has also invested in long-term carbon offsets via UK peatland restoration through a development project validated under the Peatland Code. Damaged peatlands are estimated to emit around 4% of the UK's total annual greenhouse gas emissions. The amount to be committed by the Company, partly funded by contributions from each Director and Consultant of 1% of their annual fees from the Company, has been allocated as c.25% towards immediate offsets via the Gold Standard in respect of the year ended 31 March 2022, and 75% committed to investment in UK peatland restoration to offset emissions anticipated to be generated over a minimum of the next three financial years, pending verification of the Peatland Code certified units. Key suppliers have also been invited to contribute towards the scheme as part of their environmental initiatives.

The Investment Adviser is run on a carbon-neutral basis and is committed to continuing this policy. They believe that this is the right thing to do as a business to help to meet the international target set out by the 2015 Paris Agreement to limit global warming to below 2°C. They achieve this by offsetting their carbon emissions (predominantly international travel, IT and office space) by planting Giant Sequoia trees in the UK, and investing in other carbon capture schemes. Wherever possible, it is also their preference to reduce carbon emissions, rather than offsetting them. This is achieved through energy efficiency, reduced international travel and green procurement. Offsetting, therefore, is primarily aimed at unavoidable emissions.

## Our Climate Pledge continued

### 3. We will endeavour to dispose of investments which are contrary to our ESG policy

After adopting its ESG policy in the 2020/21 financial year, the Company began disposing of, or in some cases waiting for the natural repayment of, its loans to borrowers in sectors that were not permitted under the ESG policy. This process was completed during the 2021/22 financial year. This means that the Fund no longer has exposure to sectors with the highest levels of transition risk.

### 4. We will use our ESG policy to score our loan book and, by investing in higher-scoring opportunities and disposing of lower-scoring opportunities, aim to improve the ESG score of our loan book over time where possible.

We have followed this strategy effectively and, as a result, the average weighted ESG score for the SEQI portfolio measured at 31 March each year has consistently increased: 59.61 (2020), 60.59 (2021), 61.88 (2022), 62.29<sup>1</sup> (2023).

### 5. We will engage proactively with the companies we lend to, to encourage them to work towards the goals of the Paris Agreement.

The Fund takes a proactive approach to managing its loan book and engages with borrowers in relation to ESG topics in a number of important ways, including implementing ESG-related loan terms, requesting completion of annual ESG questionnaires, regular monitoring of and engagement on any key ESG issues, and voting on loan modifications. More detail is set out in the Fund's ESG policy.

### 6. We will, where appropriate, embed covenants into loan agreements to oblige our borrowers contractually to adopt and comply with appropriate environmental policies.

Our approach to embedding covenants into loan agreements is covered in more detail in the Fund's ESG policy. This includes terms on environmental considerations, such as covenants to comply with environmental regulations, manage pollution, reduce carbon emissions, and adopt water and wastewater management strategies. For instance, we incorporated covenants into one of our loans that sets a strategic goal for the company of transitioning from landfill gas to solar over the term of our loan. We track progress towards this goal, and it is the focus of many of our engagements with the borrower.

In addition, we have provisions within the Fund's revolving credit facility linking the pricing to the Fund's ESG score.

1. ESG score is included in the scope of KPMG LLP's limited assurance (see [www.seqi.fund/investors/documents-circulars](http://www.seqi.fund/investors/documents-circulars)).



## 7. We will embed covenants into loan agreements to oblige our borrowers contractually to use appropriate environmental metrics.

Our approach to embedding covenants into loan agreements is covered in more detail in the Fund's ESG policy. This includes terms on reporting requirements on environmental metrics such as carbon footprint, energy intensity and recycling ratios. For instance, the refinancing of one of our legacy loans allowed us the opportunity to add a clause requesting the borrower completes our annual questionnaire on a best efforts basis, which includes various environmental measurements, including Scope 1, Scope 2 and Scope 3 emissions as well as energy consumption and waste metrics.

## 8. We will engage with regulators and policy makers wherever we believe we can accelerate or improve action to combat climate change.

We have not had the opportunity to engage with regulators and policy makers in relation to combating climate change this year but hope to do so in the future when possible.

## 9. We will speak out publicly and build or support coalitions of like-minded investors and thought leaders in order to drive change where we believe this will be effective.

At the Annual and Interim Results presentations, we discuss points of note on ESG. On an ad hoc basis, Sequoia will talk about its view and approach to ESG. This year for instance, Proximo interviewed Steve Cook, a Director and the Head of Portfolio Management at the Fund's Investment Adviser, about how infrastructure lenders can best assess the risks and opportunities associated with decarbonisation and the energy transition amongst other topics. The Investment Adviser's Chief Risk Officer, Anurag Gupta, was a panellist at the Nuclear Energy Agency Financing Conference hosted by IFNEC and the OECD's NEA. Here he spoke on new nuclear financing and low-carbon energy generation. This year, he was also an independent judge at the IJInvestor Awards 2022, which are designed to recognise and celebrate the leading funds' M&A activity in the energy and infrastructure markets.

## 10. We will report to our investors our compliance with our ESG policies.

This annual sustainability report reports on our compliance with our ESG policy, such as progress towards our ESG Goals and examples from the application of our approach to engagement.





## Case study

# Workdry

£50.0 million

Invested

9.53%

Yield to maturity

3

ESG-linked KPIs

### Link to ESG



Infrastructure with social benefits

During the period, the Company invested £50 million in a senior secured facility to support Arcus Infrastructure Partners with the acquisition of Workdry International Limited. Workdry is the UK's leading provider of mission-critical water and wastewater handling infrastructure leasing solutions and has been operating for over 75 years.

Workdry's origins date back to 1946. During the early years, Workdry was a diversified asset hire business encompassing generalist plant and scaffolding hire as well as pump manufacturing and rental. Over the last decade, the business transitioned from a "drop and go" pump rental provider into a leading engineered water solutions specialist with ambitions to continue driving profitable growth. The company currently operates three business divisions: Selwood Limited Pump Rental Solutions, Siltbuster, and Selwood Pump Sales & Manufacturing. Through its three divisions, the company delivers temporary water and wastewater pumping solutions as well as modular water treatment and processing solutions to both water utility companies and customers in the infrastructure and construction sector.

Being the UK's leading provider of essential and emergency water and wastewater handling infrastructure solutions, the company's core operations are inherently environmentally and socially friendly. Arcus and Sequoia seek to manage their portfolios and portfolio companies in a way that drives improved ESG outcomes and have therefore, alongside the other syndicate lenders, agreed to issue the acquisition financing debt as a sustainability-linked loan. This was done by building in an ESG ratchet mechanism based on three defined KPIs in the margin. The three KPIs were identified as the following: Scope 1 transport emissions, Scope 2 emissions, and GRESB score. The KPIs on Scope 1 and Scope 2 emissions incentivise the reduction of the company's direct operational environmental impact. The KPI on the company's GRESB score aims to encourage improvement in its overall commitment and adherence to high environmental, social and governance criteria.



Arcus has a good track record at improving GRESB scores over time which is seen as a credit positive. If all KPIs are met at each of the annual test dates, the margin reduces by 0.10% per annum. There is a lower 0.066% p.a. reduction for successful completion of two of the KPIs and no adjustment for just achieving one KPI. If, however, none of the KPIs are met, the margin increases by 0.033% p.a.

The company's products and services that they provide to customers have a hugely positive impact on the environment and the local community. By providing a deep network of equipment that can serve both planned and emergency wastewater pumping and treatment solutions, Workdry's divisions contribute to the avoidance of severe damage from sewage overflow events. Further, the company has introduced various measures to help tackle climate change, for example 85% of its personal vehicle fleet is hybrid or electric and most sites have EV charging, its pump fleet can largely operate on renewable hydrotreated vegetable oil, and LED lighting is installed as part of building refurbishments. The company takes an innovative approach to addressing environmental issues across the spectrum; they were the first company in the sector to develop pump canopies to reduce noise pollution, which have been rolled out across the fleet.

We recognise that Workdry offers some of the more detailed disclosures on environmental metrics within the SEQI portfolio, including carbon emissions and energy consumption, but also on the social side such as reporting on gender pay gap and health and safety. The group has a newly implemented ESG policy which covers of pursuit of various SDGs, specifically Clean Water and Sanitation (SDG 6), Decent Work and Economic Growth (SDG 8), Industry, Innovation and Infrastructure (SDG 9), Responsible Consumption and Production (SDG 12), Climate Action (SDG 13), and Life Below Water (SDG 14). The group is currently working on an all-encompassing Responsible Business Framework, which we look forward to reviewing. Workdry has shown a great receptivity to our engagement, and we hope for more of the same to come as we continue to progress the positive working relationship we have fostered.

## UN SDGs

Through the investments it makes and ESG processes and principles in place, the Company can most clearly track, align with, and report on the following nine UN SDGs:



We have investments in the healthcare sector, such as in a provider of long-term care for adults with learning difficulties, specialising in care for people with intellectual disability, autism, mental health diagnoses, and acquired brain injuries with complex behavioural needs.



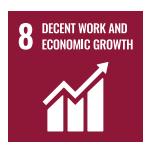
We invest in the education sector; for example, we have provided a loan to a company that repurposed a large office building into a school. We would also actively seek further investments in education, as this sector would come under our positive screening theme of infrastructure with social benefits.



We look to invest in infrastructure with social benefit as one of our positive screening pillars, which includes clean water. For instance, we have provided funding to the leading UK provider of essential and emergency water and wastewater handling infrastructure leasing solutions. The services include water treatment, flood relief and burst pipe repair.



We have provided capital to numerous projects in the renewable energy and energy efficiency space. Current examples include a portfolio of over 50,000 residential solar PV systems across 16 US states, the UK's largest generator of lower carbon power from captured methane, and a Danish offshore wind turbine maintenance company.



SEQI's strategy is to invest in economic infrastructure. These are fixed, tangible assets that make up physical capital, one of the three factors of production and essential for economic growth, capital formation and final consumption stages of GDP. We also support decent work by bolstering health and safety and wage policies at borrowers.



SEQI's core purpose is to provide regular, sustained, long-term loans to economic infrastructure industries. We provide capital to a diversified portfolio of small- and mid-sized private companies globally. Our TMT investments, such as in broadband, connects societies and increases access to information and communications.



We invest in infrastructure that connects communities in a sustainable way, such as a passenger rail project that has the most fuel-efficient locomotives. We also finance a bypass motorway, which reduces congestion, and have implemented many initiatives to tackle climate change, including a net zero strategy and carbon reduction plan.



As well as considering our own supply chain, we monitor policies and metrics around waste production and management, air pollution, materials use and recycling, and biodiversity at all of the companies we lend to and will engage to drive improvement in these areas where necessary.



SEQI has made a set of climate pledges and committed to three ESG Goals. This includes progressing thematic investing and increasing the portfolio's weighted average ESG score. As such, our investments will increasingly fund the most sustainable sectors/sub-sectors within economic infrastructure to help support long-term climate action.

# TCFD

## Our progress against the TCFD recommendations

In line with the current UK Listing Rules requirements, our TCFD-aligned disclosures take into account the implementation recommendations in the 2017 TCFD Annex. In addition, we have considered the 2021 TCFD Annex and applied it where possible. Some recommendations in the 2021 TCFD Annex will require more time for us to fully consider, before we can adopt them in due course, for instance climate scenario analysis and stress testing.

Climate scenario analysis relies on extensive and consistent data sets across the portfolio, which the Investment Adviser is looking to obtain from the borrowers. Obtaining this information is proving challenging for a number of reasons: borrowers having limited quality data availability; loan agreements not requiring the collection and/or provision of such data; uncertainty and complexity of projecting climate scenarios; and uncertainty surrounding transition risks arising from economic and policy shifts. As inaccurate or incomplete data can undermine the climate risk assessments and the modelling of financial impacts, the Fund is not making these disclosures at this point. Whilst not being able to commit to an exact date, we are continuing to work towards being able to analyse the portfolio under different climate scenarios in the future.

### Governance

Disclose the organisation's governance around climate-related risks and opportunities.

#### TCFD recommended disclosures

##### A. The Board's oversight of climate-related risks and opportunities.

The whole Board is responsible for setting the strategy for the Fund, including in relation to climate-related risks and opportunities. The Board meets at least quarterly, during which they, together with their independent consultants and the Investment Adviser, review the risks and opportunities facing the Fund, including in relation to climate change. As part of this, the Investment Adviser prepares an ESG report each quarter for the Board. The Fund has a number of committees which are tasked with focusing on various specific elements of climate-related risks and opportunities:

- the Management Engagement Committee is responsible for encouraging the Fund's service providers to minimise their avoidable greenhouse gas emissions and offset unavoidable emissions, thereby helping to minimise the Fund's Scope 3 emissions;
- the Audit Committee has responsibility for climate-related disclosures including SFDR and TCFD;
- the ESG and Stakeholder Engagement Committee reviews, approves and monitors performance against the Fund's ESG policy; and
- the Risk Committee oversees and advises the Board on risk strategy and exposure including ESG risks.

SEI Board members have a wealth of experience and expertise related to the oversight of climate issues as well as other ESG areas more broadly.

For instance, James Stewart – Chair of SEI's ESG and Stakeholder Engagement Committee – served as Chief Executive of Infrastructure UK; in 2010 he was responsible for developing the first UK National Infrastructure Plan, which had a strong ESG focus. Since then, his global role at KPMG allowed him to promote ESG principles in infrastructure around the world. More recently, James chaired the project team responsible for developing the UNECE's PPP Evaluation Methodology for the SDGs.

Sarika Patel is on the Boards of two Article 9 funds, and has personally overseen clear disclosures for both SFDR and TCFD reporting requirements. One of these funds has also been issued the first Voluntary Carbon Market ("VCM") designation by the London Stock Exchange.

Fiona Le Poidevin has been involved in promoting ESG and sustainable investment for over a decade. In 2018 she led the launch of The International Stock Exchange's first green finance market segment for companies, bonds and funds creating a positive environmental impact.



## TCFD continued

### Our progress against the TCFD recommendations continued

#### Governance continued

Disclose the organisation's governance around climate-related risks and opportunities.

#### TCFD recommended disclosures continued

##### B. Describe management's role in assessing and managing climate-related risks and opportunities.

ESG, including climate-related risks and opportunities, has become central to the Investment Adviser's approach to infrastructure debt.

Climate risks are considered at each stage of the investment process, including the initial screening of opportunities (where positive and negative screening are applied, as outlined in the ESG policy) and in meetings of the Investment Adviser's Investment Committee. Risk assessment takes the form of both quantitative analysis (such as calculation of an ESG risk score) and qualitative assessments (such as approach of the management of investee companies).

After an investment has been made, the Investment Adviser continues to monitor it for changes to its climate-related risk profile. Primarily this is undertaken through regular discussion with, and information gathering from, the borrowers that the Fund has lent to. This is further enhanced in some cases by bespoke climate-related covenants and undertakings included within loan agreements.

The Investment Adviser considers climate-related risks not only in relation to individual investments, but also aggregated at the portfolio level. In other words, it is necessary to assess correlations of climate-related risks: for example, geographical concentrations in areas that may be prone to coastal flooding.

#### Key developments

- For the 2022/23 financial year, the Fund engaged KPMG to provide an independent limited assurance process under ISAE (UK) 3000 on our ESG scores for the SEQI portfolio. This will be the third year of mandating the ESG audit, which provides an independent oversight of our analysis. We understand that we were the first FTSE 250 investment fund to undertake such a process.
- Following the establishment of the ESG and Stakeholder Engagement Committee in March 2022, three more committee meetings took place over FY 2023 with full attendance. The Board recognises the value and importance to all stakeholders of organisations incorporating effective environmental, social and governance policies. In furtherance of the Fund's ESG aspirations and the increased attention from stakeholders on these matters, the Board formed this dedicated committee with delegated responsibility for addressing key ESG-related matters. Andrea Finegan has been appointed as an independent consultant to the ESG and Stakeholder Engagement Committee. Andrea has particular experience in and expertise on climate change, and renewables in particular. She is currently the independent chair of the Schroders Greencoat Valuation Committee, having previously served as COO of Greencoat. Prior to this, Andrea was responsible for similar management functions at Climate Change Capital.
- In February 2023, the Investment Adviser hired its first dedicated ESG lead, reflecting their continued commitment to improving their ESG expertise and resources to better assess and manage the growing risks and opportunities in the climate space.



## Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

### TCFD recommended disclosures

#### A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

The Fund is well positioned to take advantage of the climate-related opportunities, since the transition to a low carbon economy is likely to require very significant capital, and governments around the world will look to the private sector to finance this, at least in part. These opportunities include: renewable energy, grid enhancement, energy storage, electric vehicle charging, energy efficiency projects and improved mass transit systems. Moreover, traditional lenders such as banks are not always well positioned to adapt quickly to new technologies and that will increase the need for private debt. The Fund is already seeing significant lending opportunities in many of these areas and expects this demand for capital to increase over time.

At the same time, the Fund is exposed to climate-related risks, primarily through its investment portfolio. The key risks are:

- transitional risks, namely that some assets may become less profitable, or even worthless, as a result of legislation, regulation or market changes. For example, a carbon tax might mean that it is no longer economic to operate a gas-fired power plant;
- technology risk, namely that some parts of the infrastructure sector are developing rapidly, such as energy storage and hydrogen fuel systems, which may result in changes to markets that are difficult to predict. For example, the development of better batteries may make some "peaker plants" (power plants that operate when electricity demand increases and electricity prices spike) redundant;
- physical risk, namely that one consequence of climate change is the increased frequency of droughts, flooding, fires, storms or other natural phenomena. For example, businesses located in coastal areas may need to invest substantially in sea defences or otherwise harden their assets; and
- social and economic risks, namely that climate changes may make some areas much more difficult to live in, resulting in economic hardship, mass migration and potential political instability.

It is not possible to put precise time scales on these risks, but it is reasonable to assume that they are all currently present to a certain extent and that they are likely to grow over time.

#### B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

The impact of the climate-related opportunities is that the Company will be able to deploy capital on attractive terms to a wider range of sectors than currently, such as battery storage, carbon capture, grid enhancement and energy efficiency projects. This will increase the diversification of the Company's portfolio and help it to deliver an attractive risk-adjusted return to Shareholders.

Conversely, avoiding sectors where there is an unduly high level of climate-related risk, or even limiting the Fund's exposure to sectors where there is some climate-related risk, will decrease the portfolio's diversification.

The Investment Adviser's view is that, between these two factors, there will be a net benefit for the Fund's strategy. This is because the Fund is already avoiding the most at-risk sectors and is only beginning to see the full range of opportunities that are likely to arise. Moreover, avoiding borrowers with a high degree of climate-related risk is simply prudent lending and should be done regardless of any ESG strategy.

One purpose of the Fund's ESG score is to help track resilience to climate change, amongst other things. Part of the investment strategy is to improve the portfolio's weighted average ESG score over time, which can be achieved by improving the portfolio's resilience to climate change risks.

# TCFD continued

## Our progress against the TCFD recommendations continued

### Strategy continued

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

#### TCFD recommended disclosures continued

##### C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Overall, the Fund believes that its strategy is resilient to climate change. In order to assess resilience, it is necessary to consider a range of scenarios. Broadly speaking, in 2°C or lower scenarios, transitional risks will be high but physical and social-economic risks will be low. In higher temperature scenarios, the converse will be the case.

There are two potential impacts of climate-related risk on the Fund.

Firstly, some sectors within the infrastructure market may become uninvestable in the future, for example assets in the hydrocarbon value chain such as coal-fired power stations or upstream oil and gas assets. This is especially likely to be the case in low temperature increase scenarios, where the economy has transitioned rapidly to a low carbon state. Currently, under its ESG policy, the Company is avoiding those sectors where there is a near-term or medium-term risk of them becoming uninvestable. Therefore, this potential impact can be considered long-term. Should it happen, the Company's portfolio might over time become less diversified; however, in the opinion of the Investment Adviser, this risk is more than outweighed by the opportunities described above.

Secondly, the credit quality of some of the borrowers that the Fund lends to might deteriorate. For example, extreme weather events might materially increase the cost of insuring some assets, or they may not be insurable without investing in asset-hardening. This risk is mitigated in a number of ways:

- each of the borrowers has equity capital at risk ahead of the loan. This acts as a "shock absorber" in that the equity capital would need to be lost before the Company as lender can lose money;
- the Company's loans are typically short-dated; they are mostly due to be repaid within five years, that is before many of the most serious climate risks are likely to manifest;
- the Investment Adviser undertakes thorough due diligence on each company that the Company lends to, and assessing their exposure to climate risk is part of that. In other words, the Company is not likely to make a loan to a business that has poor resilience to climate change risk; and
- the investment portfolio is highly diversified in terms of the location of its borrowers and the sectors and sub-sectors they operate in. This will reduce the effect of many risks, such as technological disruption or unexpected regulation or legislation.

#### Key developments

- Following the disposal of, or in some cases natural repayment of, its loans to borrowers in sectors that were not permitted under the ESG policy during financial year 2021/22, the Company no longer has exposure to sectors with the highest levels of transition risk. Throughout 2022/23, these sectors continued to be excluded through the Company's negative screening process as per its ESG policy, which was updated in November 2022.
- These investments have been replaced with, inter alia, loans in new sectors such as renewable energy and water solution projects that are positioned to take advantage of the opportunities that arise from the transition to a low carbon economy. This is in part reflected by the fact that new loans this year have a weighted average ESG score of 64.29, which sits above the portfolio average of 62.29.
- This year, the Investment Adviser was awarded the 2022 global award for Best ESG Infrastructure Investment Strategy by Capital Finance International ("CFI"), in recognition of its progress against its ESG commitments and framework. CFI's announcement of the award win can be seen here: <https://cfi.co/awards/best-practice/2023/sequoia-investment-management-company-best-esg-infrastructure-investment-strategy-global-2022/>.

## Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks.

### TCFD recommended disclosures

#### A. Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risks are primarily assessed at the level of each investment and form part of the Investment Adviser's due diligence process.

Typically, third-party expert reports will be commissioned to assess key risks. For example, engineers might review the physical condition of the borrower's assets, including their exposure and resilience to extreme weather risk. This will then be analysed in tandem with a review of the borrower's insurance policy and its other resources to cover uninsured risks.

Climate-related risks are thus identified, and where possible quantified, in the due diligence phase of an investment and discussed in the Investment Committee. Risks that are unacceptably high will result in an investment not being made.

#### B. Describe the organisation's processes for managing climate-related risks.

The Investment Adviser monitors each loan at least twice a year (and more frequently if required). This includes a review not just of credit quality, but also of the borrower's ESG profile, including climate-related factors. To assist in this, each borrower is sent annually a detailed questionnaire including qualitative and quantitative topics which will assist the Investment Adviser in updating its analysis.

A range of steps can be taken as a result of this ongoing monitoring of investments. For example, the internal credit rating may be adjusted, the loan may be considered for disposal, or the decision may be made not to participate in a refinancing of the loan when it comes to its maturity date. In other words, if it becomes clear that a borrower's resilience to climate change is deteriorating, the Company can choose to dispose of the loan.

Similarly, if a sector is beginning to experience higher levels of climate-related risks, the Investment Adviser will avoid making new loans in it. Given the relatively short maturity of many of the loans in the portfolio, this will rapidly have the effect of decreasing the Fund's exposure to that sector.

#### C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Climate risk is integrated into the entire investment and risk management process.

At a very early stage, in considering whether to dedicate resources to a potential new loan, the Investment Adviser will apply negative and positive screening and estimate the borrower's ESG score. Some potential investments will be rejected at this stage if the climate-related risks are likely to be unacceptably high.

Following the due diligence process, the Investment Committee will consider ESG matters as a part of the deliberations. The investment's ESG score will be agreed upon by the committee.

Subsequently, the investment is considered by the Investment Manager and in some cases the Risk Committee of the Board, who take into account both credit quality and ESG profile, including, where appropriate, resilience to climate change. The Risk Committee carries out a regular assessment of the Company's risks, including ESG risks, which feeds into the ESG and Stakeholder Engagement Committee which is responsible for overseeing the overall ESG strategy.

Finally, each quarter, the Investment Adviser prepares for the Board an ESG report, which reviews the overall portfolio.

### Key developments

- The Fund has a comprehensive framework to identify and assess climate change risk. This is fully integrated into its loan approval, monitoring and risk management processes. In February 2023, the Investment Adviser hired its first dedicated ESG lead, who is involved with ESG monitoring and attends Origination Committee and Investment Committee meetings to add to the discussion of ESG factors at these stages. This reflects the Fund's continued commitment to improving its ESG expertise and resources to better assess and manage the growing risks and opportunities in the climate space.

# TCFD continued

## Our progress against the TCFD recommendations continued

### Metrics and targets

Disclose the metrics and targets used to assess and manage the relevant climate-related risks and opportunities where such information is material.

#### TCFD recommended disclosures

**A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.**

Currently, the Fund uses the ESG score as its key metric for assessing the environmental profile of its investments. This ESG scoring framework helps the Fund allocate capital between projects and to measure its progress over time in a quantitative way. The methodology blends the “E”, “S” and “G” components without allowing strength in one area to offset entirely weakness in another. For example, a polluting company will always get a poor score, even if it has excellent social and governance policies. Moreover, the Fund’s policy is not to lend to companies with a very low E score, of less than one, regardless of the overall ESG score.

Going forward, the Fund is looking to widen its range of metrics including potentially greenhouse gas emissions. However, currently this is not possible as the data that is available, in the context of a private debt portfolio, is not comprehensive enough to accurately calculate this type of metric. The ESG score serves as an analogous metric.

**B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks.**

The Fund’s Scope 1 and Scope 2 emissions would be minimal, as SEI does not technically have any premises, people or operations. The Fund has worked with its suppliers in order to estimate its Scope 3 greenhouse gas emissions. The Investment Adviser is also working with the companies that the Fund lends to in order to improve this estimate.

**C. Describe the targets used by the organisation to manage climate-related risks and performance against targets.**

The Fund has three goals, including to strictly comply with our negative screening criteria and to progress thematic investing (positive screening). The primary target used is to improve year-on-year the portfolio’s weighted average ESG score.

#### Key developments

- The Fund has improved its average portfolio ESG score from 61.88 last year to 62.29 as at 31 March 2023, largely as a result of disposing of around £370 million of loans with a lower weighted average ESG score of 59.11 over the course of the current financial year. This increase also came from making £290 million of new loans that have a stronger environmental profile, such as in renewable energy and water solution projects, with a weighted average ESG score of 64.29. Thirdly, there was a net neutral contribution to the year’s improved score from the revisions in the ESG scores of borrowers. These upward and downward modifications came from changes in borrower behaviour (such as the implementation of effective environmental policies), furthering our requests for evidence and events that unfolded during the year (such as the issuance of a fine for an outdated waste code, which resulted in a downgrading).
- A questionnaire is sent to our investee companies annually, which includes requesting quantitative metrics, such as Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. This year we received a record response rate to our questionnaire at 92% of borrowers and, despite the most disclosure of carbon emissions we have had, there are still significant data gaps due to the limited resources of smaller borrowers to be able to measure their emissions.



# Stakeholders

## Stakeholders, business relationships and socially responsible investment

Whilst directly applicable to companies incorporated in the UK, the Board recognises the intention of the AIC Code that matters set out in section 172 of the Companies Act 2006 are reported. The Board strives to understand the views of the Company's key stakeholders and to take these into consideration as part of its discussions and decision-making process. As an investment company, the Company does not have any employees and conducts its core activities through third-party service providers. Each provider has an established track record and is required to have in place suitable policies and procedures to ensure it maintains high standards of business conduct, treats customers fairly, and employs corporate governance best practice.

Whilst the primary duty of the Directors is owed to the Company as a whole, all Board discussions involve careful consideration of the longer-term consequences of any decisions and their implications for stakeholders. Particular consideration is given to the continued alignment of interests between the activities of the Company and those that contribute to delivering the Board's strategy, which include the Investment Manager, the Investment Adviser, the Company Secretary, recipients of the Company's capital and providers of long-term debt finance. In addition, the Board has an ESG and Stakeholder Engagement Committee, which reviews the effectiveness of the Company's mechanisms for stakeholder engagement.

The Board's commitment to maintaining high standards of corporate governance; its policy for active Shareholder engagement, combined with the Directors' duties enshrined in Company law; the constitutive documents; the Disclosure Guidance and Transparency Rules; and the Market Abuse Regulation, ensure that Shareholders are provided with frequent and comprehensive information concerning the Company and its activities.

## Response to Shareholders

Recipients of the Fund's capital are subject to a comprehensive ESG assessment deployed by the Investment Adviser as part of the Fund's investment process, designed to encourage sustainability and mitigate the negative impacts of corporate activity on the environment and the communities in which they operate. Further details can be found in the Investment Adviser's report and the ESG report. The interests of borrowers, sponsors and relevant intermediaries involved in the credit process are also discussed during scheduled Board meetings and in detail during the Board's detailed portfolio review sessions.

The relationship with the providers of the Company's RCF is managed by the Company's service providers. Regular updates are provided on developments concerning the Fund and any public announcements, in addition to monthly reporting of portfolio compliance covenants.

The Board respects and welcomes the views of all stakeholders. Any queries or areas of concern regarding the Fund's operations can be raised with the Company Secretary.

## Section 172 statement

Although the Company is not domiciled in the UK, through adopting and reporting against the best practice principles set out in the AIC Code the Company is voluntarily meeting any obligations under the UK Corporate Governance Code, including section 172 of the Companies Act 2006.

The Directors recognise their individual and collective duty to act in good faith and in a way that is most likely to promote the success of the Company for the benefit of its members as a whole, whilst also having regard, amongst other matters, to the Company's key stakeholders and the likely consequences of any decisions taken during the year, as set out below:

# Stakeholders continued

## The interests of the Company's employees

The Company has no direct employees and maintains close working relationships with the employees of the Investment Adviser, Investment Manager and the Administrator, who undertake the Company's main functions. Refer to the report of the Management Engagement Committee on pages 62 and 63.

## The impact of the Company's operations on the community and the environment

The Company has integrated detailed ESG considerations into its investing, monitoring and management activities, designed to mitigate climate change, promote human rights practices and effective corporate governance. Refer to the sustainability report on pages 24 to 40.

## The need to foster the Company's business relationships with suppliers and others

The Board maintains close working relationships with all key suppliers and those responsible for delivering the Company's strategy. The contractual relationship with each supplier and their performance is formally reviewed each year. Refer to the report of the Management Engagement Committee on pages 62 and 63.

In addition, even though the Company has no premises or employees, it has estimated the carbon emissions caused by its Directors, consultants and personnel employed by its Investment Adviser and smaller service providers in the fulfilment of their respective roles relating to management, direction and governance of the Company. It strives to be a carbon neutral entity through its purchase of appropriate offsetting measures. For further details please refer to the Chair's statement on page 4, the sustainability report on pages 24 to 40, the report of the ESG and Stakeholder Engagement Committee on pages 70 and 71, and to the ESG section of our website

## The desirability of the Company maintaining a reputation for high standards of business conduct

The Chair is responsible for setting expectations concerning the Company's culture and the Board ensures that its core values of integrity and accountability are demonstrated in all areas of the Company's operation.

Refer to Board values and culture on page 58 of the corporate governance statement.

## The need to act fairly between Shareholders of the Company

The Board, in conjunction with the Investment Adviser and Broker, engages actively with Shareholders to understand their views and to ensure their interests are taken into consideration when determining the Company's strategic direction.



## Shareholders

### Why engage?

As the principal source of capital, Shareholder capital is deployed by the Company in pursuit of its investment objective which, in turn, generates income for the Company which is used primarily to benefit Shareholders through the payment of dividends.

The Board recognises the importance of active Shareholder engagement to ensure there exists a continued alignment of interests with the objectives of the Company and those of Shareholders, and to inform the Board's future decision-making.

### How the Company engages

The Board, alongside the Investment Adviser and the Broker, maintains an ongoing programme of investor engagement which includes investor and analyst presentations, regular announcements on material developments affecting the Company, and offers to meet with key institutional Shareholders. Feedback from these and other relevant channels of communication forms part of the Board's decision-making process when determining the future strategy of the Company, and taking decisions which may impact Shareholders.

Shareholders are invited to attend and vote at all general meetings where all significant decisions affecting the Company are taken. In particular, the AGM where Shareholders may discuss the activities of the Company, its governance and strategy, and raise any issues or concerns directly with the Board.

Routine updates are also provided to Shareholders through the provision of monthly investment update factsheets and net asset value reports, annual and half-yearly financial statements and regulatory news announcements.

All of which, in addition to other relevant information concerning the Company, are made available on the Company's website.

The Chair, the SID and individual Directors are willing to meet major Shareholders to discuss any particular items of concern or to understand their views on governance and the performance of the Company. General queries can also be submitted to the Board via the Company Secretary at the Company's registered office.

### SEQI Capital Markets Day

On 10 May 2023, the Company hosted a Capital Markets Day at the London Stock Exchange, which served as a key platform for engagement with shareholders both in person and virtually. The event was designed to cover topical and relevant infrastructure credit themes, reflecting the evolving landscape and the interests of Shareholders. The event featured five panel sessions with 13 speakers, including key representatives from two portfolio companies. The event was designed to be as interactive as possible with dedicated time for Q&A after each panel as well as allowing the online audience to post questions. There was also an informal session following the event for direct interaction between the Board, Shareholders and the Investment Advisor. There were 164 attendees on the day, both in person and virtually, including 75 firms representing Shareholders. Other attendees included third-party analysts, portfolio companies, and members of the Board and the Investment Adviser.



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# Stakeholders continued

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## Borrowers

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### Why engage?

Engagement with borrowers and gaining an understanding of their needs is fundamental to ensuring an appropriate lending structure is put in place that accurately reflects the risks associated with the borrower's operations.

Ongoing monitoring by the Investment Adviser provides updates to the Board on material activity and informs decision-making on matters of portfolio risk.

### How the Company engages

The Investment Adviser monitors the performance of borrowers on an ongoing basis and routine reporting to the Risk Committee measures borrower performance against a combination of generic and borrower-specific key performance indicators. This regular interaction with borrowers is supported by all ongoing credit monitoring and updates and Investment Committee reviews being provided to the AIFM and independent consultants.

All borrowers are assessed against the Fund's ESG framework which is designed to encourage sustainability and mitigate any negative impacts from corporate activity on the environment and the communities in which they operate.

A detailed monitoring review report is prepared for every asset at least every six months and more frequently depending on risk characteristics or material developments. The Board and all key advisers annually undertake a detailed review of all positions in the portfolio, with a separate session dedicated to certain focus loans based on their risk profile.

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## Suppliers

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### Why engage?

The Company's suppliers include third-party service providers engaged to provide the core investment advisory, management and administrative tasks.

Each of these providers is essential in ensuring the ongoing operational performance of the Company. The Company relies on the performance of third-party service providers to undertake all of its main activities.

### How the Company engages

The Board maintains close working relationships with all of its key suppliers and regularly engages on matters relevant to the Company's activities.

Acting through the Management Engagement Committee, the Board oversees and monitors the performance and contractual relationships with each supplier. A detailed annual assessment is undertaken of each supplier to ensure they continue to perform their duties to a high standard and that their objectives remain aligned with those of the Company.

This process informs the Board's decision-making with regard to the continuing appointment of key suppliers.

The annual Management Engagement Committee meeting was held on 7 March 2023 and reviewed the performance and continued engagement of all key suppliers. A further qualitative assessment was undertaken in respect of the Investment Adviser and with reference to various assessment criteria recommended by the Association of Investment Companies ("AIC"). Refer to the report of the Management Engagement Committee on pages 62 and 63.



## Lenders

### Why engage?

The Company's lead lender, RBSI, provides a credit facility which is used for efficient deployment into credit opportunities and avoiding any impact to performance from cash drag.

### How the Company engages

The Company's relationship with RBSI is managed by the Investment Adviser and is overseen by the Investment Manager. The Investment Adviser is responsible for notifying RBSI of relevant business developments and for preparing compliance certificates on a monthly basis which confirm the Company's adherence to numerous debt covenants.

The Company's funding requirements are reviewed at least quarterly, which includes consideration of amounts drawn on the revolving credit facility ("RCF") and the Investment Adviser's business development pipeline. These factors form part of the Board's decision-making process concerning the operation of the RCF and the Company's capital management strategy.

## Society

The Fund's investing activities contribute to the societies in which its borrowers operate through providing funding for crucial services and facilities.

### Why engage?

Through applying a disciplined and socially responsible approach to investment activity, the Fund seeks to ensure its own long-term sustainable success, and that of the environments in which it operates.

The due diligence assessment carried out prior to any new investment ensures that sustainability features at the very core of the investment process.

### How the Company engages

Economic infrastructure is infrastructure that promotes economic activity, including transport, transportation equipment, utilities, power, renewable energy, accommodation and telecommunications infrastructure.

The Company's indirect engagement through those responsible for managing relationships with borrowers confirms the positive impact of SEQ's investment activities since its IPO is achieved through numerous societal benefits including, but not limited to, the creation of renewable energy, reducing carbon emissions, increasing consumer interconnectivity, achieving efficient use of materials, and reducing the cost of public amenities.

# Principal and emerging risks and uncertainties

The Board has established a Risk Committee, which is responsible for reviewing the Company's overall risks and monitoring the risk control activity designed to mitigate these risks. The Risk Committee has carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten the Company's business model, future performance, reputation, solvency or liquidity. The Board has appointed FundRock Management Company (Guernsey) Limited (formerly Sanne Fund Management (Guernsey) Limited) ("FRMCG" or the "Investment Manager") as the AIFM to the Company. FRMCG is also responsible for providing risk management services compliant with that defined in the Alternative Investment Fund Managers Directive ("AIFMD") and as deemed appropriate by the Board.

Under the instruction of the Risk Committee, FRMCG is responsible for the implementation of a risk management policy and ensuring that appropriate risk mitigation processes are in place; for monitoring risk exposure; preparing quarterly risk reports to the Risk Committee; and otherwise reporting on an ad hoc basis to the Board as necessary.

Since their appointments on 30 January 2018 and 1 February 2022 respectively, Kate Thurman and Andrea Finegan, and, until 31 December 2021, Tim Drayson, independent consultants to the Company, have provided guidance to the Board on the overall approach to risk management across the Fund's portfolio. Part of their focus has been to assist the Investment Manager in scrutinising certain of the Investment Adviser's credit evaluations.

Anurag Gupta, Chief Risk Officer ("CRO") of the Investment Adviser, provides additional oversight and resource to the Company's risk management function and the due diligence process employed by the Investment Adviser.

The principal and emerging risks associated with the Company are as follows:

## 1 Strategy risk

### Risk description

The market lacks a diverse enough range of investment opportunities offering the risk/return profile required to build and maintain a portfolio capable of generating the targeted return.

Yields available on alternative investment opportunities in the market make the Company's targeted return look unattractive to investors on a relative value basis.

### Mitigation

- The Company's investment needs represent a very small percentage of the total infrastructure debt market, and its flexible eligibility criteria allow it to target a diverse range of assets.
- Investments can be made in any part of the debt capital structure, providing the Investment Adviser with a wide enough range of risk/return profiles to help it meet portfolio yield requirements.

**2****Performance risk****Risk description**

Financial and investment decisions taken by the Company within the parameters set in the Prospectus, including asset allocation, underwriting, leverage and hedging, may be sub-optimal.

**Mitigation**

- The Company's performance relative to investment guidelines and KPIs is monitored on a monthly basis by the AIFM and reviewed by the Board quarterly.
- A credit review of each asset in the portfolio is performed semi-annually by the Investment Adviser and AIFM. The Board reviews the entire portfolio at least once a year, with higher risk loans receiving additional scrutiny.
- The Board evaluates the Investment Adviser's performance annually and can make changes if required.

**3****Capital markets risk****Risk description**

Unfavourable changes to capital markets related performance factors, including secondary market liquidity, NAV volatility, share price discount to NAV, relative attractiveness of the dividend, and investor sentiment towards the Company and its Board, can lead to loss of investor confidence and inability to raise additional capital.

**Mitigation**

- All capital markets performance factors are monitored at quarterly Board meetings.
- The Company meets with investors in general meetings and one-on-ones to promote its strategy and gather views on performance and governance so that corrective actions can be taken if needed.
- The dividend target is regularly considered relative to market alternatives and adjusted if appropriate and prudent.
- Share buy-backs, although not mandatory, are implemented when appropriate to help reduce excessive share price discounts to NAV.



# Principal and emerging risks and uncertainties

continued

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## Market risk

### Risk description

Movements in market factors and indices, including interest and exchange rates, inflation, commodity prices and risk premia, can impact the credit quality and valuation of the assets in the Fund's portfolio. Movements in rates and FX can also impact the performance of other financial activities, including hedging and leverage.

### Mitigation

- The Company considers the potential effect of significant movements in market risk factors in its underwriting process.
- Diversification mitigates the impact of movements on a portfolio level.
- The limited use of leverage and significant holding of floating rate assets help mitigate the impact of interest rate increases, and the Company's policy on hedging foreign exchange exposure minimises the impact of currency movements.

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## Counterparty credit risk

### Risk description

Asset counterparties (borrowers) may default on their obligations, or the Investment Adviser may elect to sell positions prior to their maturity dates due to credit concerns. Both situations may lead to losses. Counterparties holding the Company's cash balances or providing currency hedges may default, leading to possible losses.

### Mitigation

- A detailed credit underwriting and review process subject to several levels of approval is in place, with high-risk transactions receiving additional scrutiny.
- Every asset is credit reviewed at least semi-annually by the Investment Adviser and AIFM. All loans are reviewed by the Board at least once a year and focus loans twice.
- A cash management policy is in place that restricts the use of deposit-holding counterparties to those with acceptable credit ratings and characteristics.

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## Liquidity risk

### Risk description

A reduction in funds available, or an increase in the need for funds, can impact the ability of the Company to pay its contractual obligations or targeted dividend when due. The bespoke nature of many of the Fund's infrastructure assets makes them difficult to sell quickly to raise funds.

### Mitigation

- Portfolio liquidity is monitored by the Company on an ongoing basis, with reports presented and discussed at quarterly Board and dividend meetings.
- Sufficient cash, headroom under the borrowing facility, and liquid assets are maintained to meet liquidity needs as determined by various stress scenarios prepared by the Investment Adviser.

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## Leverage risk

### Risk description

The use of leverage by the Company in the form of a secured revolving credit facility granting a first charge over the Company's assets increases the Company's exposure to interest rates and potential losses in certain circumstances, including an inability to refinance the revolving credit facility at maturity.

### Mitigation

- Leverage is limited to 20% of NAV under the terms of the Prospectus.
- The Company monitors the amount of leverage in use on an ongoing basis.
- Increases in leverage costs triggered by interest rate increases are offset by the higher interest income generated by the portfolio's floating rate assets.

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## Compliance, regulatory and tax risk

### Risk description

If not picked up and followed or interpreted correctly, new or modified compliance, regulatory or tax rules or laws can expose the Company to risk of loss, sanction or action by Shareholders, counterparties or regulators.

### Mitigation

- The AIFM, Investment Adviser, Administrator and Broker, with support from the Company's legal and accounting teams, screen for changes to compliance, regulatory and tax rules or laws.
- The Administrator's quarterly reports allow the Board to monitor performance and determine the service providers' attitudes to risk, compliance, regulatory change and internal audit.

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## Operational risk

### Risk description

The Company has no employees and therefore relies on the performance of third-party service providers. A lack of or inadequate processes, people and systems, or external events including, but not limited to, internal and external fraud, business disruption and systems failures, data entry errors, and damage to physical assets, can lead to losses.

### Mitigation

- The Company has in place written contracts with its service providers which govern the conditions upon which services are provided.
- The Board reviews at its quarterly meetings, any control failings identified by the Administrator through their independent compliance review function and makes changes if necessary.
- The effectiveness of the Company's risk management framework and internal control systems is reviewed annually.

# Principal and emerging risks and uncertainties

continued

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## ESG risk

### Risk description

Failing to maintain the high standards and meet the stated objectives set by the Board on ESG related matters, report and disclose as required under applicable regulations and directives, and screen and monitor investments to avoid adding or keeping undesirable assets can lead to legal liability, reputational damage, and loss of income.

### Mitigation

- A new ESG and Stakeholder Committee has been established to promote the Company's stated objectives, monitor progress, and verify that reporting and disclosure requirements are being met.
- On an asset level, ESG considerations are fully integrated into the underwriting, portfolio management and review processes with an independently audited scoring methodology in place designed to help evaluate individual assets and overall portfolio ESG performance.

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## Geopolitical risk

### Risk description

Failing to react to significant and unexpected geopolitical events can have a negative impact on the Company and its assets. Recent areas of focus include the ongoing war in Ukraine.

### Mitigation

- Strategy and portfolio review days, and quarterly Board meetings, are used in part to try to identify emerging risks and put in place strategies designed to mitigate any potential impact.
- A proactive Board approach to decision-making minimises time required to take action if needed.
- All service providers are required to have business continuity plans in place to protect against disruptions.

## Emerging risks

The Board is constantly alert to the identification of any emerging risks, in discussion with the Investment Manager and the Investment Adviser. The Board will then assess the likelihood and impact of any such emerging risks, and will discuss and agree appropriate strategies to mitigate and/or manage the identified risks. Emerging risks are managed through discussion of their likelihood and impact at each quarterly Board meeting. Should an emerging risk be determined to have any potential impact on the Company, appropriate mitigating measures and controls are agreed. During the year the Company has continued to operate effectively and maintain its enhanced monitoring of the market response to significant global events. A detailed review of the main financial risks faced by the Company, and how they are managed or mitigated, is set out in note 5 to the Financial Statements.

# Governance

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# Board of Directors

The Directors of the Company, all of whom are non-executive and independent, are as follows:



**Robert Jennings, CBE**  
Chair

Robert Jennings is a resident of the United Kingdom and qualified as a Chartered Accountant in 1979. He has over 30 years' experience in the infrastructure sector. Mr Jennings was a managing director of UBS Investment Bank and was joint head of the Bank's Infrastructure Group until 2007. He has twice acted as a special senior adviser to HM Treasury. Mr Jennings has previously served as a non-executive director of the following companies: Crossrail (2009-2019); Southern Water (2012-2017, including as its Chair from 2014); 3i Infrastructure plc (2018-2021); and Chapter Zero (2019-2021). His role as Chair of the Company is his sole remaining public engagement.

**E M N**



**Sandra Platts**  
Senior Independent Director

Sandra Platts is a resident of Guernsey. In her role as an independent director, Sandra holds three London listed investment funds, one of which is Sequoia. Sandra was previously MD of Kleinwort Benson in Guernsey and undertook a number of strategic roles as Chief Operating Officer for the wider Kleinwort Benson Group. Mrs Platts holds a Master of Business Administration and is member of the Institute of Directors.

**A E M N**



**Sarika Patel**  
Non-executive Director

Sarika Patel is a resident of the United Kingdom and has over 30 years' experience in a mixture of public and private organisations. She is a Chartered Accountant and a Chartered Marketer and a graduate in law. She is a non-executive director and chairs the audit committees at Foresight Sustainable Forestry Company plc, SDCL Energy Efficiency Income Trust plc and abrdn Equity Income Trust. Sarika is the Chair of Action for Children and is a Board Member of the Office for Nuclear Regulation where she chairs the Audit, Risk and Assurance Committee. She is a member of the Expert Advisory Panel, focused on the Public Bodies Reform Programme.

**A E M R**

## Key

- A** Audit Committee
- R** Risk Committee
- E** ESG and Stakeholder Engagement Committee
- N** Remuneration and Nomination Committee
- M** Management Engagement Committee
- Chair



### Tim Drayson

Non-executive Director

Tim Drayson is a resident of the United Kingdom and has over 30 years' experience in the US and European debt capital markets. He was most recently Global Head of Corporate Sales & Deputy Head of the European Corporate Loan and DCM Platform at BNP Paribas and had been a member of the Fixed Income Transaction Approval Committee, screening complex transactions and interacting with the bank's credit committee. He joined BNP Paribas as Global Head of Securitization in 2005, with responsibility for managing all origination and structuring teams, including infrastructure. Prior to joining BNP Paribas, Tim held senior roles at Morgan Stanley in London as Head of Securitized Products Syndication and Paine Webber in New York, where he traded mortgage products.

A R



### James Stewart

Non-executive Director

James Stewart is a resident of the United Kingdom and brings a wealth of leadership, international and infrastructure experience across both the public and private sectors. Between 2011 and 2021, James held several senior level positions in KPMG, including as a non-executive member of the KPMG LLP Board and chair of KPMG's Global Infrastructure practice. Prior to this, James was Chief Executive of Infrastructure UK and of Partnerships UK, responsible for supporting major infrastructure projects and the PPP program in the UK. James's earlier experience includes 16 years in investment banking, where he was involved in lending, investing equity and advising on infrastructure projects. James is currently a Trustee of the Shaw Trust and Chair and Trustee of Power for the People.

A E R N



### Fiona Le Poidevin

Non-executive Director

A Chartered Director, Fellow of the Institute of Directors and Chartered Accountant (FCA), Fiona is a non-executive director with 25 years' experience working in financial services in both London and the Channel Islands across the accounting and tax professions with experience in strategy, marketing, PR and the regulatory and listed company environments. Until the end of July 2020, Fiona was Chief Executive Officer of The International Stock Exchange Group Limited, where she was responsible for the commercial aspects of the listed exchange group's operation. Previously, Fiona was Chief Executive of Guernsey Finance, the promotional body for Guernsey's finance industry internationally, and prior to this she was an auditor and latterly tax adviser at PwC (London and Channel Islands) and KPMG (Channel Islands) for over 13 years. Fiona is a member of the AIC Channel Islands Committee and chair of a local Sea Scouts group.

A E M R

# The Sequoia Investment Management Company team

Sequoia Investment Management Company Limited (“Sequoia”) is an experienced investment adviser, which has acted as Investment Adviser to the Company from its inception. Sequoia’s management team and Investment Committee are as follows:



**Randall Sandstrom**

Director and CEO/CIO

30 years of experience in the international and domestic credit markets and infrastructure debt markets. Has managed global high yield and investment grade bonds, leveraged loans, ABS and money market securities. Board of Directors, LCF Rothschild and MD of Structured Finance. Former CEO/CIO, Eiger Capital. Head of Euro Credit Market Strategy, Morgan Stanley. Institutional Investors “All-American” senior Industrial Credit Analyst, CS First Boston (energy and transportation). Has worked in London, New York and Tokyo.



**Steve Cook**

Director and Head of Portfolio Management

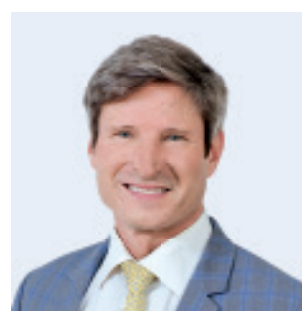
Over 20 years of infrastructure experience. European Head of Whole Business Securitisation and CMBS and Co-Head of Infrastructure Finance at UBS. Head of European Corporate Securitisation at Morgan Stanley with lending and balance sheet responsibility. Wide variety of infrastructure projects in the UK and across Europe as a lender, arranger and adviser.



**Dolf Kohnhorst**

Director and Co-Head of Infrastructure Debt

38 years of experience in investment banking, debt capital markets and project finance commercial lending. Head of Société Générale’s Financial Institutions Group covering UK, Irish, Benelux and Scandinavian banks, insurance companies, pension funds and investment management companies. 16 years at Morgan Stanley heading Benelux and Scandinavian sales teams and DCM Structured Solutions Group. Commercial lending to shipping, construction and project finance sectors.



**Greg Taylor**

Director and Co-Head of Infrastructure Debt

More than 30 years of infrastructure experience. Head of Infrastructure Finance at Merrill Lynch and Co-Head of Infrastructure Finance at UBS. Developed Moody’s methodology for rating regulated infrastructure companies. Broad perspective as bond arranger, direct lender, credit analyst and financial adviser to both borrowers and public sector. Includes lending in Europe, the UK, North America and Latin America.

# Independent consultants

The independent consultants of Sequoia Economic Infrastructure Income Fund Limited are as follows:



**Anurag Gupta**

Chief Risk Officer (“CRO”)

Over 20 years of experience in project finance, infrastructure investment and appraisal, risk management, M&A and financial advisory.

Extensive transactional experience across infrastructure sectors such as transportation, power and utilities, renewables, TMT and social infrastructure.

Former KPMG in Canada Infrastructure Advisory Partner and Global Sector Head of Power within the KPMG Global Infrastructure Practice; previous infrastructure industry roles in both public and private sectors in multiple geographies.

MBA (Tulane University, USA), Bachelors in Mechanical Engineering (Engineering Council, UK) and BSc (Calcutta University, India).



**Kate Thurman**

Kate Thurman is a highly experienced and respected credit market professional having spent over 30 years identifying and analysing credit risk in bond and loan instruments for institutional portfolios. Kate has broad experience across industry sectors, credit grades, legal structures and jurisdictions, having special expertise in the assessment of quantitative and qualitative credit factors and downside risks. She is a former board and audit committee member of Colne Housing Society, a not-for-profit Housing Association with 3,000 units under management and c.£150 million of commercial debt. Her former executive career included senior roles in asset management and investment banking organisations.



**Andrea Finegan**

Andrea Finegan has a strong background in infrastructure finance, including over 20 years spent in the management of infrastructure funds. She is currently independent chair of the Schroders Greencoat valuation committee, having previously served as Chief Operating Officer of Greencoat, a renewable infrastructure investment manager, where she was responsible for overseeing the establishment of listed and unlisted investment fund products. Prior to Greencoat, Andrea was responsible for similar management functions at Climate Change Capital and ING Infrastructure Funds. Andrea holds an MBA in Strategic Carbon Management.



# Corporate governance

## Compliance

The Board places a high degree of importance on ensuring that high standards of corporate governance are maintained and has considered the principles and provisions of the AIC Code of Corporate Governance (the "AIC Code"), which can be found at <https://www.theaic.co.uk>. The AIC Code addresses all the principles set out in the UK Code of Corporate Governance (the "UK Code") in addition to setting out additional principles and provisions on issues relevant to listed investment funds. The Board considers that reporting against the principles and provisions of the AIC Code will provide the most appropriate information to Shareholders and during the year the Board has reviewed its policies and procedures against the AIC Code.

The Board has also taken note of the Finance Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission (the "Guernsey Code"). The Guernsey Code provides a governance framework for Guernsey Financial Services Commission ("GFSC") licensed entities, authorised and registered collective investment schemes. Companies reporting against the UK Code or the AIC Code are deemed to satisfy the provisions of the Guernsey Code.

For the year ended 31 March 2023, the Company has complied with the provisions of the AIC Code and the relevant provisions of the UK Code. Issues that are not reported on in detail here are excluded because they are deemed to be irrelevant to the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties and as a result the Company has no executive directors, employees or internal operations and therefore has not reported in respect of provisions concerning the role of the chief executive, the remuneration of executive directors, or the internal audit function.

### AIC code

- Board leadership and purpose (see pages 52 to 55).
- Division of responsibility (see pages 59 to 61).
- Composition, evaluation and succession (see pages 57, 58 and 69).
- Audit, risk and internal control (see page 61 and pages 64 to 67).
- Remuneration (see pages 68 and 69 and pages 72 and 73).

## The Board

Chair

Senior Independent Director

Independent Directors

### Remuneration and Nomination Committee

Responsible for recommending changes to the composition of the Board, reviewing succession planning and determining the Company's remuneration policy

[Read more on pages 68 and 69](#)

### ESG and Stakeholder Engagement Committee

Responsible for monitoring the effectiveness of the Company's engagement with key stakeholders and setting the Company's ESG objectives

[Read more on pages 70 and 71](#)

### Audit Committee

Ensures there is confidence in the integrity of internal financial controls and corporate reporting

[Read more on pages 64 to 67](#)

### Risk Committee

Responsible for the management of risks to which the Fund's investments are exposed

[Read more on page 60](#)

### Management Engagement Committee

Responsible for reviewing the remuneration and performance of the Company's service providers

[Read more on pages 62 and 63](#)

## Composition of the Board and independence of Directors

As at 31 March 2023, the Board of Directors comprised six (2022: seven) non-executive and independent Directors as set out below. The Company has no executive Directors or any employees. The Chair and all Directors are considered independent of the Investment Adviser, the Investment Manager, the Administrator and Company Secretary. The Directors consider that there are no factors, as set out in the AIC Code, which compromise the Directors' independence and that they all contribute positively to Board effectiveness. The Board reviews the independence of all Directors annually. Robert Jennings was deemed to be independent by the Board prior to his appointment as Chair of the Company. The Directors' biographies are disclosed on pages 52 and 53.

Robert Jennings is the Chair of the Board. In accordance with provision 19 of the UK Code, a Chair should not remain in post for more than nine years from the date of their initial appointment.

Sandra Platts is the Senior Independent Director ("SID") and Chair of the Remuneration and Nomination and Management Engagement Committees.

Sarika Patel is the Chair of the Audit Committee.

James Stewart is the Chair of the ESG and Stakeholder Engagement Committee.

Tim Drayson is the Chair of the Risk Committee.

Fiona Le Poidevin was appointed to the Board with effect from 1 January 2023.

An external executive search consultancy firm was engaged in relation to the appointment of Fiona Le Poidevin. This firm has no other connection to the Company.

No Director has a service contract with the Company. The terms of appointment for each non-executive Director are set out in writing between each individual and the Company. Copies of the appointment letters are available for review by Shareholders at the Company's registered office.

As Chair, Robert Jennings is responsible for leading the Board of Directors and for ensuring its effectiveness in all aspects of its role. The specific duties of the Chair include setting the Board's agenda, expectations concerning the Company's culture, ensuring the Board has in place effective decision-making processes which are supported by accurate and high-quality information, and demonstrating ethical leadership and promoting the highest standards of integrity, probity and corporate governance throughout the Company. The Board's annual performance evaluation is led by the Chair, with support from the SID, and it will take action as appropriate based on the results of that evaluation.

The responsibilities of the SID include being available to Shareholders as an additional point of contact or to communicate any concerns to the Board, and working closely with the Remuneration and Nomination Committee to develop the Board's succession planning and pipeline.

In accordance with the AIC Code, all Directors are subject to re-election annually by Shareholders. The Board has adopted a policy on tenure that it considers appropriate for an investment company. The Board does not consider length of service by itself to be a factor impairing director independence. However, the Board's tenure and succession policy, applied to all non-executive Directors, seeks to ensure that the Board remains well balanced and the skills, knowledge and experience of the Board are refreshed at appropriate intervals.

In order to avoid undue disruption from the departure of multiple Directors in the same year, and for reasons of continuity, three new Directors were appointed during the prior year, and two of the Directors appointed at the Fund's launch retired without seeking reappointment at the 2022 AGM. One further new Director was appointed during the current year.

## Board diversity

The Board supports the recommendations of the Davies Report and notes the recommendations of the Parker Review into ethnic diversity and the Hampton-Alexander Review on gender balance in FTSE leadership. The Board supports the widening of its diversity, whilst ensuring the capabilities, experience and background of each member remain appropriate to the Company and continue to contribute to overall Board effectiveness.

The search process initiated in the prior year following the Nomination Committee's review of the size, structure and composition of the Board recognised the need to broaden the diversity of the Board. As at 31 March 2023, the Board is 50% male and 50% female.

The Company confirms that, as at 31 March 2023, it has met the targets on Board diversity as set out in the FCA Listing Rule 14.3.33, namely that:

- at least 40% of the Board is female;
- at least one senior position on the Board is held by a woman; and
- at least one individual on the Board is from a minority ethnic background.

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# Corporate governance continued

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## Directors' performance evaluation

The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors, which is led by the Chair and, as regards the Chair's performance evaluation, by the SID. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Fund to external providers.

The Directors undertake, on an annual basis, an assessment of the effectiveness of the Board, particularly in relation to its oversight and monitoring of the performance of the Investment Manager, Investment Adviser and other key service providers. The evaluations consider the balance of skills, experience, independence and knowledge of the Company. The Board also evaluates the effectiveness of each of the Directors.

An externally facilitated Board effectiveness review is undertaken every three years, in line with the recommendations of the UK Code. A review was undertaken during the current year by Fletcher Jones. The review assessed aspects such as the quality of the Board's engagement with the Investment Advisory team concerning investment strategy, and the monitoring of performance; contingency planning for 'realistic disaster scenarios' for key assets; climate change risk and ESG reporting; the ongoing cohesiveness of the Board and its key advisers; the structure of the Board and its Committees; its oversight of Shareholder relationships and communications; and issues relating to diversity, transitioning and long-term succession planning. The findings from the independent performance evaluation concluded that the Company maintained high standards of corporate governance practice and, in the context of the Company, the main principles of the AIC Code continued to be applied effectively.

The Board remains cognisant of the need to anticipate and respond to evolving challenges, and therefore the governance framework in place by the Company is subject to regular review to ensure it remains appropriate in the context of the Company. The next externally facilitated Board effectiveness review will be carried out in relation to the financial year ending 31 March 2026.

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## Board values and culture

The Chair is responsible for setting the standards and values expected of the Board, and the Board operates with the Company's core values of integrity, transparency and accountability with an aim of maintaining a reputation for high standards in all areas of the Company's activities. The Board recognises the value and importance to all stakeholders of organisations incorporating effective environmental, social and governance policies as part of its day-to-day operations; refer to pages 41 to 46 for additional information. In the furtherance of the Company's ESG aspirations and the increased attention from stakeholders on these matters, in the prior year the Board appointed a dedicated committee with the delegated responsibility for addressing relevant matters of stakeholder engagement. The first report of the ESG and Stakeholder Engagement Committee can be found on pages 70 and 71.

Through designing an effective ESG policy which reflects the Board's core values and the alignment of this with the Fund's business operations, the Board seeks to promote a culture of openness and constructive challenge amongst those responsible for taking key decisions. The findings from the most recent external performance evaluation endorsed the quality of boardroom debate and high levels of collaboration between all parties as key contributors to a highly effective decision-making process. This is underpinned by a robust corporate governance framework which seeks to align the Company's purpose, values and strategy with the culture set by the Board through active engagement with the Company's key service providers.

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## Directors' remuneration

It is the responsibility of the Remuneration and Nomination Committee to debate and make recommendations to the Board in relation to the Directors' remuneration, having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. No Director who is a member of the Committee takes part in discussions relating to their own remuneration. The Directors periodically benchmark the remuneration policy of the Company against comparable information on listed investment companies, particularly those operating in similar or adjacent market sectors, in addition to giving due regard to the individual circumstances of the Company which may warrant a departure from industry norms.

No Director has a service contract with the Company and details of the Directors' remuneration, and changes thereto reflecting the increased time commitment required of the Board, can be found in the Directors' remuneration report on pages 72 and 73.

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## Directors' and officers' liability insurance

The Company maintains insurance in respect of Directors' and officers' liability in relation to the Directors' actions on behalf of the Company.

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## Relations with Shareholders

The Board believes that the maintenance of good relations and understanding the views of Shareholders is important to the long-term sustainable success of the Company and since launch the Board has adopted a policy of actively engaging with major Shareholders through a variety of means. Further information on how the Company engages with Shareholders can be found in the stakeholders section on pages 41 to 43.

## Directors' meetings and attendance

The table below shows the Directors' attendance at Board and Committee meetings during the 2022/23 annual Board cycle.

Committee	Number of meetings held	Robert Jennings <sup>1</sup>	Sandra Platts	Sarika Patel <sup>1</sup>	James Stewart <sup>1</sup>	Tim Drayson	Fiona Le Poidevin	Jon Bridel <sup>1</sup>	Jan Pethick <sup>1</sup>
Board – scheduled	4	4 (4)	4 (4)	4 (4)	4 (4)	4 (4)	1 (1)	1 (1)	1 (1)
Board – ad hoc	12	12 (12)	9 (12)	9 (12)	11 (12)	12 (12)	2 (2)	5 (7)	4 (7)
Audit	3	N/A	3 (3)	3 (3)	3 (3)	3 (3)	N/A	N/A	N/A
Risk	4	1 (1)	1 (1)	4 (4)	3 (3)	3 (3)	N/A	1 (1)	1 (1)
Remuneration and Nomination	2	2 (2)	2 (2)	N/A	2 (2)	N/A	N/A	N/A	N/A
Management Engagement	1	1 (1)	1 (1)	1 (1)	N/A	N/A	N/A	N/A	N/A
ESG and Stakeholder Engagement	3	3 (3)	3 (3)	3 (3)	3 (3)	N/A	N/A	N/A	N/A

1. Onshore resident Directors.

The numbers in brackets indicate the number of meetings held during the tenure of the Director or their membership of the specified committee. Jon Bridel and Jan Pethick retired from the Board on 3 August 2022, and Fiona Le Poidevin joined the Board with effect from 1 January 2023.

Kate Thurman and Andrea Finegan, the Company's independent consultants, attended a number of Risk Committee and other meetings with the Directors during the year.

## Board responsibilities

The Board meets formally on a quarterly basis to review the overall business activities of the Company and any matters specifically reserved for its consideration. Standing agenda items considered at all quarterly Board meetings cover portfolio performance, capital allocation and deployment, ESG matters, NAV and share price performance, Shareholder return metrics, reviewing changes to the risk environment including the assessment of emerging risks, marketing and investor relations, peer group information and industry issues. Consideration is also given to administration and corporate governance matters, legislative developments and, where applicable, reports are received from the Board's formally constituted committees.

The Directors also review the Fund's activities every quarter to ensure that the Fund adheres to its investment policy. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. The Board has adopted a schedule of matters specifically reserved for its decision making and distinguishing these from matters it has delegated to the Company's key service providers.

Although no formal training is given to Directors by the Company, the Directors are kept up to date on various matters such as corporate governance issues through bulletins and training materials provided from time to time by the Company Secretary, the AIC and professional firms.

The Board actively monitors the level of the share price premium or discount to determine what action, if any, is required. The Board continues to closely monitor the rating of the Company's shares.



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# Corporate governance continued

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## Board Committees

### Audit Committee

The Audit Committee comprises Sarika Patel, Sandra Platts, James Stewart, Tim Drayson and (with effect from 27 June 2023) Fiona le Poidevin, and is chaired by Sarika Patel. At least one member of the Committee has recent and relevant financial experience, in accordance with the provisions of the AIC Code. The Committee meets at least three times a year.

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### Key responsibilities

The key responsibilities of the Audit Committee include reviewing the Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the Auditor. The Audit Committee also reviews, considers and, if appropriate, recommends for the purposes of the Company's Financial Statements the valuations prepared by the Investment Manager and Investment Adviser. With respect to the Auditor, the Audit Committee's role will include the assessment of their independence and the effectiveness of the audit, and a review of the Auditor's engagement letter and remuneration and any non-audit services provided by the Auditor. For the principal duties and report of the Committee please refer to the report of the Audit Committee on pages 64 to 67.

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### Risk Committee

Until 3 August 2022, the Risk Committee comprised Jon Bridel, Robert Jennings, Jan Pethick, Sandra Platts and Sarika Patel, and was chaired by Jon Bridel. With effect from Jon Bridel's retirement as a Director on 3 August 2022, the Committee comprises Tim Drayson, Sarika Patel, James Stewart and (with effect from 27 June 2023) Fiona le Poidevin, and is chaired by Tim Drayson. The Committee meets at least quarterly.

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### Key responsibilities

The principal responsibility of the Risk Committee is to identify, assess, monitor and, where possible, oversee the management of risks to which the Fund's investments are exposed, principally to enable the Company to achieve its target investment objective of regular, sustained, long-term distributions over the planned life of the Company, with regular reporting to the Board. As the Company is an externally managed non-EU AIF for the purposes of AIFMD, the Directors have appointed the Investment Manager as AIFM to manage the additional risks faced by the Company as well as the relevant disclosures to be made to investors and regulators. On 30 January 2015, the Financial Conduct Authority ("FCA") confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company has complied with Articles 22 and 23 of the AIFMD for the year ended 31 March 2023.

The Risk Committee works closely with the Investment Manager and, as required, the independent consultants, and provides oversight of the Company's risk management function. The financial year under review included a number of matters requiring extensive liaison between key advisers to assess emerging risks and to agree appropriate mitigating actions. This was particularly evident in the case of the Bulb restructuring, where considerable resources of the Investment Adviser were (and continue to be) committed in order to protect the Company's interests during negotiations and to implement the resulting holding structure. The Committee welcomes the strong progress made by Anurag Gupta since his appointment as CRO to the Investment Adviser, particularly his notable contributors to the risk management framework and the credit disciplines employed by the Investment Adviser.

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## Management Engagement Committee

Until 3 August 2022, the Management Engagement Committee comprised Jan Pethick, Jon Bridel, Robert Jennings, Sandra Platts and Sarika Patel, and was chaired by Jan Pethick. With effect from Jan Pethick's retirement as a Director on 3 August 2022, the Committee comprises Sandra Platts, Robert Jennings, Sarika Patel and (with effect from 27 June 2023) Fiona le Poidevin, and is chaired by Sandra Platts. The Committee meets at least once annually.

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### Key responsibilities

The Committee is responsible for the regular review of the terms of the Investment Advisory and Investment Management Agreements, along with the performance of the Administrator, Investment Adviser and the Investment Manager and the Fund's other key service providers. For the principal duties and report of the Committee please refer to the report of the Management Engagement Committee on pages 62 and 63.

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## Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Sandra Platts, Robert Jennings and James Stewart, and is chaired by Sandra Platts.

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### Key responsibilities

The Committee's key responsibilities include: reviewing the structure, size and composition of the Board; considering the succession planning for Directors and senior executives; reviewing the leadership needs of the organisation and identifying candidates for appointment to the Board, including the need to broaden the diversity of the Board; considering the remuneration of the Directors; and determining the Company's remuneration policy. For details of the remuneration of the Directors during the year, please refer to the Directors' remuneration report on pages 72 and 73.

## ESG and Stakeholder Engagement Committee

The ESG and Stakeholder Engagement Committee comprises James Stewart, Robert Jennings, Sandra Platts, Sarika Patel and (with effect from 27 June 2023) Fiona le Poidevin, and is chaired by James Stewart. The Committee meets at least twice annually.

### Key responsibilities

The Committee's key responsibilities are to support the Board in monitoring the effectiveness of the Company's engagement with key stakeholders and to set the Company's environmental, social and governance objectives and to review the performance of the Company against those objectives.

## Management arrangements

### Investment Manager and Investment Adviser

The Directors are responsible for the determination of the Fund's investment policy and have overall responsibility for the Company's activities. The Company has entered into an Investment Management Agreement with the Investment Manager with effect from 28 January 2015. On the same date, the Investment Manager, with the consent of the Company, entered into an Investment Advisory Agreement with the Investment Adviser to manage the assets of the Fund in accordance with the Fund's investment policy. The Investment Adviser is responsible for the day-to-day management of the Fund's portfolio and the provision of various other management services to the Fund, subject to the overriding supervision of the Directors.

The Directors consider that the interests of Shareholders, as a whole, are best served by the continued appointment of the Investment Manager and the Investment Adviser to achieve the Fund's investment objectives.

## Custody arrangements

The Fund's assets are held in custody by The Bank of New York Mellon (the "Custodian") pursuant to a Custody Agreement dated 27 February 2015.

The Fund's assets are registered in the name of the Custodian within a separate account designation and may not be appropriated by the Custodian for its own account.

The Board conducts an annual review of the custody arrangements as part of its general internal control review and is pleased to confirm that the Fund's custody arrangements continue to operate satisfactorily. The Board also monitors the credit rating of the Custodian, to ensure the financial stability of the Custodian is being maintained to acceptable levels. As at 31 March 2023, the long-term credit rating of the Custodian as reported by Standard & Poor's is AA- (2022: AA-), which is deemed to be an acceptable level.

Ongoing monthly calls are maintained between the Custodian and the Administrator to discuss any performance issues that may arise.

## Administrator

Administration and Company Secretarial services are provided to the Company by Sanne Fund Services (Guernsey) Limited (the "Administrator"). The Administrator also assists the Company with AIFMD, Common Reporting Standard and FATCA reporting.

A summary of the terms of appointment of the Investment Manager, Investment Adviser, Custodian and Administrator, including details of applicable fees and notice of termination periods, is set out in note 10 to the Financial Statements.

## Internal control review and risk management system

The Board of Directors is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an ongoing process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks facing the Company. These internal controls are implemented by the Company's four main service providers, the Investment Adviser, the Investment Manager, the Administrator and the Custodian. The Board receives periodic updates from these main service providers at the quarterly Board meetings of the Company. The Board is satisfied that each service provider has effective systems in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.

The Board of Directors considers the arrangements for the provision of Investment Advisory, Investment Management, Administration and Custody services to the Company on an ongoing basis and a formal review is conducted annually. As part of this review the Board considered the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date.

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# Report of the Management Engagement Committee



**Sandra Platts**

Management Engagement Committee Chair

The Company has established a Management Engagement Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company's website).

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## Chair and membership

Until 3 August 2022, the Management Engagement Committee comprised Jan Pethick, Robert Jennings, Sandra Platts and Sarika Patel, and was chaired by Jan Pethick. With effect from Jan Pethick's retirement as a Director on 3 August 2022, the Committee comprised Sandra Platts, Robert Jennings, Sarika Patel and (with effect from 27 June 2023) Fiona le Poidevin, and was chaired by Sandra Platts. The Committee meets at least once annually.

The Committee is responsible for the regular review of the terms of the Investment Advisory and Investment Management Agreements, along with the performance of the Administrator, Investment Adviser and the Investment Manager and the Fund's other key service providers. The membership of the Committee and its terms of reference are kept under review.

## Duties

Through the Committee, the Directors continually monitor the performance and the continued appointment of all key service providers and a formal, detailed assessment of the performance and the terms of engagement of the Company's key service providers is undertaken on at least an annual basis to ensure each remains fair and reasonable. This annual review process includes two-way feedback, which provides the Board with an opportunity to understand the views, experiences and any significant issues encountered by service providers during the year. In addition, the Management Engagement Committee is actively involved reviewing the contractual relationship with the Investment Adviser, scrutinising their performance and ensuring the contractual terms remain aligned with the objectives of the Company and the interests of Shareholders. This includes reviewing the overall basis of remuneration for the Investment Adviser, particularly to ensure it does not encourage excessive risk taking, but rewards demonstrable superior performance and continues to motivate and incentivise the level of performance expected of the Investment Adviser.

The Directors recognise the importance of maintaining strong and effective business relationships with the Company's operational counterparties and that high quality interaction with these stakeholders is an important success factor for delivering the Board's strategy.

The annual performance assessment conducted by the Management Engagement Committee seeks to ensure that:

- the terms of engagement remain fair and reasonable and reflective of the services performed in the context of the nature, scale and complexity of the Company;
- strong congruence exists between the objectives of the counterparty and those of the Company;
- they have not been the subject of any adverse event which may present additional risk to the Company;
- they remain appropriately incentivised to perform their duties to a high standard; and
- their continued engagement remains in the best interests of the Company as a whole.

## Main activities during the year

The key focus areas for the Management Engagement Committee during the year included:

- reviewing the performance of the Custodian;
- reviewing the level of remuneration payable to the Subsidiaries' Administrators;
- reviewing the performance of the Administrator, taking into consideration any impact of the acquisition of the Administrator by Apex Group Limited;
- reviewing the performance of the Broker; and
- reviewing the performance of the Investment Manager.

## Service provider performance assessment

In line with the current AIC guidance, a specific service provider assessment was conducted by way of face-to-face reviews. A detailed discussion and assessment took place regarding the succession planning within the Investment Adviser's organisation.

The results of the performance evaluations were discussed and evaluated by the Committee. It was determined that the overall performance of the Company's service providers had been of a high standard during the year, with no material concerns or issues arising. The standard of services provided by each of the suppliers had either met or exceeded expectations; and the Committee did not believe it necessary to recommend any changes to the contractual terms of engagement of any provider.

The Management Engagement Committee remains satisfied with the overall level of performance of the Investment Adviser. Currently the Board does not consider it necessary to obtain an independent appraisal of the Investment Adviser's services and the continued retention of the Investment Adviser's services is considered to be in Shareholders' best interests.

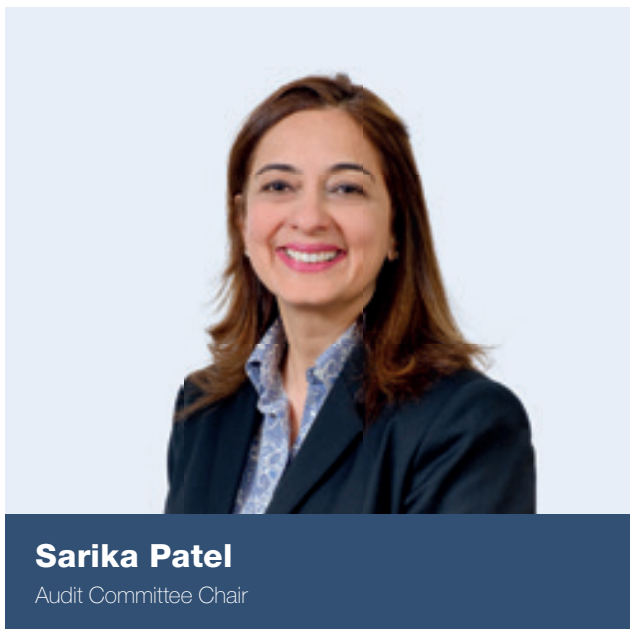
## Sandra Platts Management Engagement Committee Chair

28 June 2023



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# Report of the Audit Committee



**Sarika Patel**

Audit Committee Chair

The Company has established an Audit Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company Secretary).

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## Chair and membership

The Audit Committee comprises Sarika Patel, Sandra Platts, James Stewart, Tim Drayson and (with effect from 27 June 2023) Fiona le Poidevin, and is chaired by Sarika Patel. The Committee meets at least three times a year. The Company considers that the Audit Committee members have sufficient relevant sector experience to enable the Committee to discharge its duties effectively.

All members of the Committee are independent Directors; have no present links with Grant Thornton Limited, the Company's independent Auditor (the "Auditor" or "Grant Thornton"); and are independent of the Investment Manager and Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee are detailed on pages 52 and 53 of these Financial Statements. The Audit Committee's intention is to meet three times a year in any full year and to meet with the Auditor as appropriate.

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## Duties

The Audit Committee's main role and responsibility is to provide advice to the Board on whether the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy. The Audit Committee gives full consideration and recommendation to the Board for the approval of the contents of the Interim and Annual Financial Statements of the Company, which includes reviewing the Auditor's report.

The other principal duties of the Committee are to consider the appointment of the Auditor; to discuss and agree with the Auditor the nature and scope of the audit; to keep under review the scope, results and effectiveness of the audit and the independence and objectivity of the Auditor; and to review the Auditor's letter of engagement, planning report for the financial period and management letter, as applicable.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of the Company's internal control and risk management systems. The Audit Committee also focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules and ensuring that an effective system of internal financial control is maintained.

The Audit Committee also reviews, considers and, if appropriate, recommends for the purposes of the Company's Financial Statements the valuations prepared by the Investment Manager and Investment Adviser. These valuations are the most critical element in the Company's Financial Statements and the Audit Committee considers them carefully.

### Financial reporting and audit

The Audit Committee has an active involvement and oversight in the preparation of both the interim and annual Financial Statements and in doing so is responsible for the identification and monitoring of the principal risks associated with the preparation of the Financial Statements and other risks and uncertainties identified by the Board. The principal risk identified in the preparation of these Financial Statements is the valuation of the Company's investments in Sequoia IDF Asset Holdings S.A. and Yotta BidCo Limited, its subsidiary companies (the "Subsidiaries"), which hold all of the underlying investments.

The Company's investment in the Subsidiaries had a fair value of £1,861,431,678 as at 31 March 2023 (2022: £1,822,486,404 (restated, see note 18)), representing a substantial proportion of the net assets of the Company, and as such is the biggest factor in relation to the accuracy of the Financial Statements. PwC was engaged as Valuation Agent throughout the year and was responsible for carrying out a fair market valuation review of the Subsidiaries' investments on a monthly basis. Draft pricing for the Subsidiaries' investments is provided by the Investment Adviser to the Valuation Agent, who in turn produces a final valuation report for review by the Investment Adviser and the Investment Manager. The responsibility for establishing the valuation of the Subsidiaries' investments rests with the Investment Manager, subject to final approval by the Board. This report is then submitted to TMF Luxembourg S.A. (the "Sub-Administrator"), for inclusion in the Subsidiaries' NAV.

The Audit Committee has regular dialogue with the Investment Manager and Investment Adviser regarding the methods of valuation used. It reviews and may challenge their methodologies, controls and processes of valuation used to value the Subsidiaries' investments.

The Audit Committee regularly reviews the valuations prepared by the Investment Adviser for investments where market prices are not readily available. At the year end these represented 85.4% (2022: 79.2%) of total investments. Where appropriate, these valuations are scrutinised and compared against valuations of investments with similar characteristics or subject to a sensitivity analysis based on changes in key assumptions. The Audit Committee has also considered the Auditor's approach to their audit of the valuation of the Subsidiaries' investments and discussed with the Auditor their approach to testing the appropriateness and robustness of the valuation methodologies applied. The Auditor has not reported any significant differences between the valuations used and the results of the work performed during their testing process.

Based on the review and analysis described above, the Audit Committee is satisfied that, as at 31 March 2023, the fair values of the Subsidiaries' investments are reasonable. As a result, the Audit Committee is satisfied that as at 31 March 2023, as stated in the Financial Statements, the fair values of the Company's investments in the Subsidiaries are reasonable.

The Audit Committee reviewed the Company's accounting policies applied in the preparation of the annual Financial Statements, together with the relevant critical judgements, estimates and assumptions made by the Board and, having discussed matters with the Auditor, determined that these were in compliance with International Financial Reporting Standards ("IFRS") as issued by the IASB and were reasonable. The Audit Committee reviewed the materiality levels applied by the Auditor to the Financial Statements as a whole and was satisfied that these materiality levels were appropriate. The Auditor reports to the Audit Committee all material corrected and uncorrected differences. The Auditor explained the results of their audit and that on the basis of their audit work, there were no adjustments proposed that were material in the context of the Financial Statements as a whole.

The Audit Committee also reviews the Company's financial reports as a whole to ensure that such reports appropriately describe the Company's activities and that all statements contained in such reports are consistent with the Company's financial results and projections. Accordingly, the Audit Committee was able to advise the Board that the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model, financial position and strategy.

# Report of the Audit Committee continued

## Financial reporting and audit continued

During the year, the Company received a letter from the FRC<sup>1</sup> detailing the results of a review by the FRC's Corporate Reporting Review ("CRR") team of the Company's Interim Report for the period ended 30 September 2022. The CRR review raised no queries on the Interim Report, however it noted a number of matters that it considered would improve the Company's disclosures for the benefit of users of the Company's financial statements, and requested that these matters be considered in the preparation of the Company's 2023 Annual Report. The Committee confirms that these matters have been addressed in this Annual Report.

## External Auditor

The Audit Committee has responsibility for making a recommendation on the appointment, reappointment or removal of the Auditor. During the prior year, recognising the benefits of periodically reviewing the role of the external Auditor, the Board decided that the audit of the Company should be put out to tender.

Following the completion of the formal tender process, the Board, on the advice of the Audit Committee, approved the appointment of Grant Thornton Limited ("Grant Thornton") as the Company's external Auditor with effect from the financial year ending 31 March 2022, which was approved by Shareholders at the Company's 2022 AGM. KPMG, who had served as Auditor of the Company for six years, resigned on 7 December 2021.

During the year, the Audit Committee received and reviewed the audit plan and report from Grant Thornton.

To assess the effectiveness of the Auditor, the Audit Committee reviewed:

- the Auditor's fulfilment of the agreed audit plan and variations from it, if any;
- the Auditor's assessment of its objectivity and independence as Auditor of the Company;
- the Auditor's report to the Audit Committee, highlighting their significant areas of focus in the conduct of their audit and findings thereon that arose during the course of the audit; and
- feedback from the Investment Manager, Investment Adviser and Administrator evaluating the performance of the audit team.

For the year ended 31 March 2023, the Audit Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process as good.

Where non-audit services are to be provided to the Company by the Auditor, full consideration of the financial and other implications on the independence of the Auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee if it is satisfied that relevant safeguards are in place to protect the Auditor's objectivity and independence. To fulfil its responsibility regarding the independence of the Auditor, the Audit Committee considered:

- a report from the Auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the Auditor.

During the year ended 31 March 2023, non-audit services were provided by Grant Thornton in the form of the Interim review. In the prior year, non-audit services were provided by KPMG in relation to an assurance report on the Fund's ESG scoring framework and the Interim review.

The following table summarises the remuneration paid to Grant Thornton and KPMG and to other member firms of the current and previous Auditors for audit and non-audit services.

	<b>Year ended 31 March 2023 £</b>	Year ended 31 March 2022 £
Annual audit of the Company – Grant Thornton	<b>165,200</b>	145,450
Annual audit of the Luxembourg Subsidiary – Grant Thornton	<b>70,900</b>	57,550
Interim review of the Company – Grant Thornton	<b>32,000</b>	—
Interim review of the Company – KPMG	<b>—</b>	32,500
	<b>268,100</b>	235,500
ESG review of the Fund – KPMG LLP	<b>59,885</b>	40,800

1. The FRC notes that its letter provides no assurance that the Company's Interim Report is correct in all material aspects, and that the FRC's role is not to verify the information provided, but to consider compliance with reporting requirements.

## Internal controls

As the Company's investment objective is to invest all of its assets into the Subsidiaries, the Audit Committee, after consultation with the Investment Manager, Investment Adviser and Auditor, considers the key risk of misstatement in its Financial Statements to be the valuation of its investments in the Subsidiaries, but is also mindful of the risk of the override of controls by its service providers, the Investment Manager, the Investment Adviser, the Administrator and the Sub-Administrator.

The Investment Manager, Investment Adviser and Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Investment Manager, Investment Adviser and Administrator provide sufficient assurance that a sound system of risk management and internal control, which safeguards Shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the internal financial control systems and risk management systems on which the Company is reliant. These systems are designed to ensure proper accounting records are maintained, that the financial information on which business decisions are made and which is used in publications is reliable, and that the assets of the Company are safeguarded. Such a system of internal financial controls can only provide reasonable and not absolute assurance against misstatement or loss.

During the year, the Company's Interim Report for the period ended 30 September 2022 was reviewed by the FRC's Corporate Reporting Review ("CRR") team, and the FRC wrote to the Company in January 2023 to detail their findings. The FRC advised that there were no further questions or queries that they wished to raise, however they noted a number of matters where they believed that users of the Company's financial statements would benefit from improvements to the Company's existing disclosures. The Audit Committee confirms that all such matters raised have been addressed in these Annual Financial Statements.

In accordance with the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" published by the Financial Reporting Council (the "FRC") in September 2014, which integrated the earlier guidance of the Turnbull Report, the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by the Company's four main service providers, the Investment Manager, the Investment Adviser, the Administrator and the Custodian. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

## Sarika Patel Audit Committee Chair

28 June 2023



# Report of the Remuneration and Nomination Committee



**Sandra Platts**

Remuneration and Nomination Committee Chair

The Remuneration and Nomination Committee comprises Sandra Platts, Robert Jennings and James Stewart, and is chaired by Sandra Platts.

The Committee operates within clearly defined terms of reference which are considered and are then referred to the Board for approval. A copy of the terms of reference is available on the Company's website or upon request from the Company Secretary.

The main roles and responsibilities of the Remuneration and Nomination Committee are to:

- consider the remuneration of the Directors and determine the Company's remuneration policy;
- regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for Directors, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future; and
- lead the process for appointments and be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Remuneration and Nomination Committee reports formally to the Board on its proceedings on all matters within its duties and responsibilities and on how it has discharged its responsibilities. The Committee meets at least once per year and at such other times throughout the year as required. All members of the Board have the right to attend Committee meetings. However, other individuals and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

The Remuneration and Nomination Committee met once during the financial year. The principal matters considered included, but were not limited to:

- the remuneration of the Directors and the Company's remuneration policy;
- the increase of the cap on Directors' remuneration;
- consideration of potential candidates for Board succession and recommendation to the Board, cognisant of the Company's aim of broadening the diversity of the Board;
- the findings of the Board evaluation concerning the size, structure and composition of the Board and the appropriateness of the current mix of skills, knowledge and experience for its current activities;

- how effectively members of the Board work together to achieve their objectives;
- the Company's policy on diversity, ensuring this remained aligned with the Company's strategy and objectives;
- Director succession planning, with reference to the Board's skills matrix and giving full consideration to the expected future leadership needs of the Company;
- the time requirements and independence of Directors; and
- consideration and agreement of the terms of reference of the Committee for approval by the Board.

The Committee continues to maintain and develop the Board's succession planning arrangements to ensure the arrangements remain effective, and that a diverse pipeline for succession is maintained which remains aligned with the Company's strategy and future leadership needs.

For details of the Directors' remuneration for the year, please refer to the Directors' remuneration report on pages 72 and 73.

**Sandra Platts**  
**Remuneration and Nomination**  
**Committee Chair**

28 June 2023

# Report of the ESG and Stakeholder Engagement Committee



**James Stewart**

ESG and Stakeholder Engagement Committee Chair

On 30 March 2022, the Company established an ESG and Stakeholder Engagement Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company's website).

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## Chair and membership

The ESG and Stakeholder Engagement Committee comprises James Stewart, Robert Jennings, Sandra Platts, Sarika Patel and (with effect from 27 June 2023) Fiona le Poidevin, and is chaired by James Stewart. The Committee meets at least twice annually.

The Committee's key responsibilities are to support the Board in monitoring the effectiveness of the Company's engagement with key stakeholders and to set the Company's environmental, social and governance objectives and to review the performance of the Company against those objectives. The membership of the Committee and its terms of reference are kept under review.

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## Duties

The duties of the Committee, set out in the Committee's terms of reference, are detailed below.

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## In relation to ESG matters:

- guide, supervise and support the Investment Adviser in drafting, and periodically reviewing, the ESG policy which sets out the guiding principles, objectives, strategic actions and policies with respect to ESG matters and screening criteria applied in relation to the Fund's investment portfolio;
- have oversight of the overall ESG strategy of the Company, including agreeing the Company's key ESG objectives, to be set out in the Company's Annual Report (or separately in a sustainability or ESG report);
- have exclusive authority for developing and overseeing the execution of the Company's policies aimed at mitigating the environmental impact of the Company's own activities;
- agree the key performance indicators linked to each of the Company's chosen ESG objectives, and monitor progress against each of these key performance indicators;

- assess and prioritise ESG risks and opportunities for the Company, such assessment to be carried out in alignment with chosen reporting frameworks, including assessment of climate change risks, and with relevant input from the Risk Committee and the Investment Adviser on the impact to the current portfolio and deployment pipeline;
  - receive reports and keep abreast of notable developments in ESG-related regulation and industry trends relevant to the Company and the sector(s) in which it operates;
  - monitor the Company's adherence to ESG objectives and KPIs and work with the Audit Committee ("AC") to oversee the reporting of these objectives and KPIs;
  - monitor ESG developments with key service providers and report on such to the Management Engagement Committee ("MEC");
  - oversee the selection of non-financial reporting/ESG disclosure frameworks by the Company;
  - oversee the engagement of any external service provider or consultants retained for the purpose of auditing the Company's performance in relation to ESG matters;
  - oversee the preparation either of a separate annual ESG report, or the integration of ESG and sustainability reporting into the Annual Report; and
  - identify relevant ESG training and opportunities and advise the Board and/or the Company's key service providers accordingly.
- receive feedback from the Board Chair, SID and the Corporate Broker on investor relations activity, Shareholder sentiment and their views on governance and performance against the Fund's investment objective and investment policy;
  - support the Chair of each of the Board's formally constituted committees when engaging with Shareholders on significant matters related to their areas of responsibility, and supporting the Board Chair in ensuring there is a clear understanding of the views of Shareholders;
  - when requested by the MEC or Board (as appropriate), design strategies to address concerns with, or raised by, any of the Company's key stakeholders and report to the Board on their progress;
  - when requested by the Board, agree the steps to be taken in order to understand the reasons behind the result of any vote at a general meeting where 20% or more of the votes were cast against the Board recommendation, including receiving feedback from the investor consultation process and agreeing the content of the update report (to be published no later than six months after the Shareholder meeting) and the final summary in the subsequent Annual Report;
  - review statements to be included in the Annual Report on stakeholder engagement, including the Board's obligations under the AIC Code and section 172 of the Companies Act 2006 (or equivalent); and
  - at the discretion of the Committee Chair, approve the content of the Company's monthly investor report and NAV publications, subject to any comments received from the Board as a whole within the agreed review period, prior to publication.

### In relation to stakeholder engagement matters:

- identify each of the Company's key stakeholders and the Company's engagement mechanisms (including where such is undertaken in collaboration with other service providers) and report in the Annual Report on engagement activity and any key strategic decisions taken by the Board impacting the relevant stakeholder group;
- keep under review the effectiveness of the Company's mechanisms for stakeholder outreach and engagement, in addition to monitoring trends in stakeholder sentiment;

### Main activities during the year

Work has been undertaken by the Committee in the development of the Company's carbon offsetting strategy, with a focus on reliable and comparable reporting. During the year the Directors and independent consultants agreed to contribute 1% of their fees towards the Company's carbon offsetting initiatives, which are described on page 73.

Lenders do not typically have direct influence or control over the ESG objectives of borrowers, therefore whilst the Company encourages ESG development it is unlikely that this can be enforced. Considerable engagement had taken place with existing borrowers to influence and facilitate improvements in their ESG scores. While very detailed and specific questionnaires have been issued to borrowers, the Company does not have the ability to force them to provide measurable data and certain challenges had been faced in the data collection. Compliance has been encouraged through loan agreement inclusions, whereby the borrower can meet specific covenants in order to reduce the margin on the loan. The Committee remains responsible for identifying and recommending to the Board the Company's ESG objectives and defining the ESG goals. The specific focus applied to the portfolio has achieved improvements to the Company's overall ESG scoring.

Planning and preparations are underway to comply with upcoming regulation, in particular SFDR reporting, while the necessary disclosures in respect of governance, strategy, risk management, and metrics and target reporting under TCFD continue.

With the regulatory landscape continuing to change rapidly, the Committee has been engaged in keeping the Company's ESG policy up to date and monitoring compliance with it through a robust process.

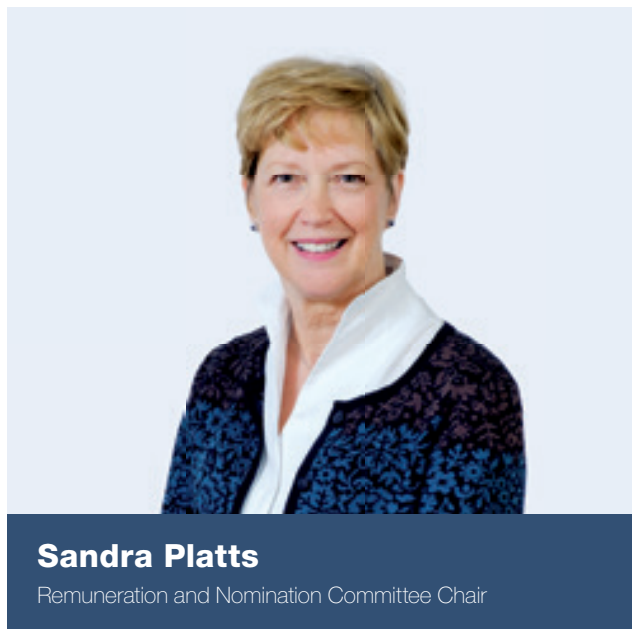
The Committee was delighted that the Company had been recognised as the first investment fund to introduce an ESG scoring matrix and the Investment Adviser won the 2022 global award for Best ESG Infrastructure Investment Strategy by Capital Finance International ("CFI"), in recognition of its progress against its ESG commitments and framework.

### James Stewart ESG and Stakeholder Engagement Committee Chair

28 June 2023



# Directors' remuneration report



The Company's policy in regard to Directors' remuneration is to ensure that the Company maintains a transparent and competitive fee structure in order to recruit, retain and motivate non-executive Directors of excellent quality in the overall interests of Shareholders and the long-term success of the Company. No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The Directors received the following remuneration in the form of Directors' fees during the year:

	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Robert Jennings (Chair of the Board and until 31 December 2021 of the Nomination Committee)	<b>76,500</b>	75,000
Jan Pethick (Chair of the Management Engagement Committee until his retirement as a Director on 3 August 2022)	<b>18,538</b>	54,300
Jon Bridel (Chair of the Risk Committee until his retirement as a Director on 3 August 2022)	<b>18,538</b>	54,300
Sandra Platts (Senior Independent Director, Chair of the Audit Committee until 31 December 2021, Chair of the Remuneration Committee until 30 March 2022, Chair of the Remuneration and Nomination Committee with effect from 30 March 2022, Chair of the Management Engagement Committee with effect from 3 August 2022)	<b>61,767</b>	61,075
Sarika Patel (appointed 4 August 2021, Chair of the Audit Committee with effect from 1 January 2022)	<b>59,000</b>	34,500
Tim Drayson (appointed 1 January 2022, Chair of the Risk Committee with effect from 3 August 2022)	<b>52,150</b>	12,000
James Stewart (appointed 1 January 2022, Chair of the ESG and Stakeholder Engagement Committee with effect from 1 April 2022)	<b>55,300</b>	12,000
Fiona Le Poidevin (appointed 1 January 2023)	<b>12,500</b>	—
	<b>354,293</b>	303,175

With effect from 1 October 2022, Robert Jennings is entitled to a fee of £78,000 per annum (2022: £75,000 per annum) in remuneration for his services as Chair of the Board of Directors. The remaining Directors are entitled to a basic fee of £50,000 each per annum with effect from 1 October 2022 (2022: £48,000 per annum) in remuneration for their services as Directors.

Until their retirement as Directors on 3 August 2022, Jan Pethick and Jon Bridel were each entitled to a fee of £6,300 per annum (2022: £6,300 per annum) in respect of their roles as Chair of the Management Engagement Committee and Chair of the Risk Committee respectively.

Sandra Platts was entitled to a fee of £10,000 per annum in respect of her role as Chair of the Audit Committee until 31 December 2021, to a fee of £6,300 per annum (2022: £6,300 with effect from 1 January 2022) in respect of her role as Chair of the Remuneration Committee until 30 March 2022 and of the combined Remuneration and Nomination Committees with effect from 30 March 2022. With effect from 3 August 2022, she is entitled to a fee of £10,000 per annum in respect of her roles as Chair of the Remuneration and Nomination Committee and of the Management Engagement Committee, and to a fee of £4,000 per annum (2022: £4,000 per annum) for serving as the Senior Independent Director.

Sarika Patel is entitled to a fee of £10,000 per annum in respect of her role as Chair of the Audit Committee (2022: £10,000 with effect from 1 January 2022).

With effect from 1 April 2022, James Stewart is entitled to a fee of £6,300 per annum in respect of his role as Chair of the ESG and Stakeholder Engagement Committee (2022: N/A).

With effect from 3 August 2022, Tim Drayson is entitled to a fee of £6,300 per annum in respect of his role as Chair of the Risk Committee (2022: N/A).

During the year, all Directors have contributed 1% of their fees to support the Company's carbon offsetting initiatives.

Directors' and officers' liability insurance cover is maintained by the Company on behalf of the Directors.

Robert Jennings and Sandra Platts were appointed as non-executive Directors by letters issued on 6 January 2015, and subsequently revised on 1 July 2019. Sarika Patel was appointed as a non-executive Director with effect from 4 August 2021. Tim Drayson and James Stewart were appointed as non-executive Directors with effect from 1 January 2022. Fiona Le Poidevin was appointed as a non-executive Director with effect from 1 January 2023.

Each Director's appointment letter provides that, upon the termination of their appointment, they must resign in writing and all records remain the property of the Company. The Directors' appointments can be terminated in accordance with the Articles and without compensation. The notice period for the removal of Directors is two months as specified in the Director's appointment letter. The Articles provide that the office of director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from Board meetings for 12 months or more; (c) unanimous written request of the other Directors; and (d) an ordinary resolution of the Company.

Under the terms of their appointment, each Director was subject to re-election at the first AGM and annually thereafter. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a Director of the Company becoming effective.

The amounts payable to Directors as at 31 March 2023 are shown in note 10 to the Financial Statements and related to services provided as non-executive Directors. No Director has a service contract with the Company, nor are any such contracts proposed.

## **Sandra Platts** Remuneration and Nomination Committee Chair

28 June 2023

# Directors' report

The Directors of Sequoia Economic Infrastructure Income Fund Limited (the "Company") are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 March 2023.

## Results and dividends

The results for the year are shown in the Statement of Comprehensive Income on page 88.

The Directors have declared and paid dividends of £112,472,856 during the year ended 31 March 2023 (2022: £110,340,625). Further details of dividends declared or paid are detailed in note 4 to the Financial Statements.

With effect from the dividend paid in respect of the quarter ended 31 December 2022, the Company's dividend policy, in the absence of any significant restricting factors, is to pay dividends totalling 6.875p (previously 6.25p) per Ordinary Share per annum for the foreseeable future. The Company pays dividends on a quarterly basis.

## Independent Auditor

Grant Thornton Limited was appointed as Auditor on 7 December 2021 and a resolution to reappoint Grant Thornton Limited as Auditor will be put to the forthcoming AGM.

## Directors and Directors' interests

The Directors who served during the year, all of whom are independent and non-executive, are listed on pages 52 and 53.

The Directors' interests in the shares of the Company are disclosed in note 10 to the Financial Statements.

## Going concern

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors are required to propose an ordinary resolution (the "Continuation Resolution") every three years. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval.

These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company. Should the failure of a Continuation Resolution result in a winding up of the Company, it is likely that such winding up would in any case take longer than 12 months.

The Directors have considered the possibility that the next Continuation Resolution, to be proposed at the AGM in August 2024, may not be passed by Shareholders. The Directors noted a number of factors in this regard:

- the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016, August 2018 and August 2021;
- the strong appetite for the Company's investment proposition, evidenced by a number of successful share issues, most recently in March 2021;
- the Company is the largest listed debt fund on the LSE and has a unique investment proposition. As such it serves a valuable diversification role in many investors' portfolios that cannot easily be replicated;
- the Company has best in class investor reporting and has maintained an active ongoing dialogue with its investors;
- the Company has a low level of gearing, at less than 10% of total assets;
- the Fund's portfolio is well-positioned to take advantage of increases in interest rates due to its increased exposure to floating rate investments; and
- the strength of the Company's cashflow has resulted in an increase in dividend cover and enabled it to increase its dividend target by 10% during the current year.

The Directors have also held discussions with the Company's Broker, Investment Adviser and a number of significant Shareholders which have led them to believe that the likelihood of the Continuation Resolution failing is low.

They also noted that the rejection of a Continuation Proposal by Shareholders does not necessarily oblige the Directors to wind up the Company.

The Directors have reviewed the Company's holdings in cash and cash equivalents and investments, including a consideration of the impact on the portfolio of the market uncertainty related to the Russian invasion of Ukraine and of the current economic environment of increasing interest rates and inflation. The Directors have also considered the impact on the Company's liquidity arising from margin calls relating to the Company's forward foreign exchange positions.

In conducting this review, the Board has also considered the sustainability of the environmental and social impact of the Company's activities. The Company has a strong balance sheet, with a low level of gearing. As with the effects of the COVID-19 pandemic, the losses that have been incurred – which have and will reverse as the investments move closer to maturity and their valuations accrete to par – are unrealised, and therefore have no direct effect on the solvency of the business.

The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Fund's investment portfolio. The Directors also note that the interest income cash flow of the Fund has increased substantially during the period, as several borrowers who had been permitted to capitalise interest during the COVID-19 pandemic and other economic issues of the last two years have resumed paying cash interest. The interest income cash flows of the Fund remain sufficient to cover operating costs and to pay the Company's increased target dividend.

As a result of this review, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company, despite the current challenging economic environment, retains a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

## Viability statement

The Directors have carried out a robust assessment of the viability of the Company over a five-year period to May 2028, taking account of the Company's current position and the potential impact of the principal and emerging risks outlined in this statement. In making this statement, the Directors have considered the resilience of the Company, taking into account its current position, the principal and emerging risks facing the Company in severe but reasonable scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the five-year period to May 2028 is an appropriate period over which to provide its viability statement as the average remaining life to maturity of the Fund's portfolio of investments has historically generally fallen within the range of four to five years. In making their assessment, the Directors have taken into account the Company's NAV, net income, cash flows, dividend cover, regulatory compliance, the outlook for the economy and key financial ratios over the period.

The viability modelling incorporates sensitivity analysis flexing of a number of main assumptions underlying the forecast. This analysis is carried out to evaluate the potential impact of the Company's principal risks actually occurring, including the following key stresses:

- a 15% Sterling FX shock, which would trigger margin calls by the Company's FX counterparties. This is broadly similar to the decline in Sterling immediately following the UK's exit from the European Union or the more recent announcement in September 2022 of controversial fiscal policies by the UK. This led to high volatility in the foreign exchange market over the last year, and we therefore believe it is prudent to assume one might happen in the future;
- a 10% reduction in the portfolio's income. This would simulate an increase in the level of defaulted or non-performing assets in the portfolio; and
- no increase in short-term interest rates. Since half of the portfolio consists of floating rate loans, rising interest rates are beneficial. It seems likely that interest rates will continue to rise in the key currencies of US Dollar, Euro and Sterling, but we do not include the benefit of this.

No specific stresses have been run around the Company's ability to refinance its revolving credit facility, which matures in December 2024. Should the existing lending syndicate decline to extend or refinance the facility before it falls due (which the Board believes is unlikely), and should the Investment Adviser be unable to find other banks to replace the existing syndicate, then the RCF could be repaid in relatively short order by a combination of using the proceeds of loans that repay, either wholly or in part, and selectively selling some of the more liquid investments.

The viability model also includes projections for the continuing deployment of capital into new target investments. These projections amount to approximately £501 million in the downside scenarios, whilst still supporting the Company's target dividend and meeting its financial targets.

The key outputs of the viability testing include the following:

- the Company has sufficient resources for full debt repayment at maturity;
- the Company has positive intra-month liquidity throughout the viability period, indicating it has adequate resources to cover all of its liabilities, including hedge mark-to-market settlements, finance costs and operational expenses; and
- the Company's existing target dividend is fully cash-covered throughout the viability period due to the highly cash-generative nature of the portfolio and the Company's low cost base. In extremis, the dividend could be cut in order to preserve the Company's solvency, however this would also affect the ability to raise debt and equity capital, so would be avoided wherever possible.

The Directors have also considered the possibility that Continuation Resolutions, to be proposed at the 2024 and 2027 AGMs, may not be passed by Shareholders. Following discussions with the Company's Broker, Investment Adviser and a number of significant Shareholders, and in light of a number of important factors as outlined in the Going Concern section above, the Board believes that the Continuation votes are likely to be passed.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to May 2028.



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# Directors' report continued

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## Substantial shareholdings

As at 31 March 2023, the Company had the following shareholding in excess of 5% of the issued share capital:

Name	Number of Ordinary Shares	Percentage
Investec Wealth & Investment	151,389,956	8.72%

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## Related parties

Details of transactions with related parties are disclosed in note 10 to the Financial Statements.

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## Listing requirements

Since its listing on the Main Market of the London Stock Exchange and admission to the premium segment of the Official List of the UK Listing Authority, the Company has complied with the Listing Rules, the Prospectus Rules, the FCA Disclosure Guidance and Transparency Rules ("DTR"), ESMA guidance and the European Union's Market Abuse Regulation (as implemented in the UK through the Financial Services and Markets Act 2000 (Market Abuse) Regulations 2016). There are no matters that require disclosure under FCA Listing Rule 9.8.4R relating to arrangements made with a controlling Shareholder, waivers of Directors' fees or long-term incentive schemes in force.

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## Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") became effective on 1 January 2013. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US tax compliance with respect to those assets. On 13 December 2013, the States of Guernsey entered into an intergovernmental agreement ("IGA") with US Treasury, in order to facilitate the requirements of FATCA. The Company registered with the Internal Revenue Service ("IRS") on 25 February 2015 as a Foreign Financial Institution ("FFI") and a Sponsoring Entity.

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## Common Reporting Standard

The Common Reporting Standard ("CRS"), formerly the Standard for Automatic Exchange of Financial Account Information, became effective on 1 January 2016, and is an information standard for the automatic exchange of information developed by the Organisation for Economic Co-operation and Development ("OECD"). CRS is a measure to counter tax evasion, and it builds upon other information-sharing legislation, such as FATCA and the European Union Savings Directive, and has superseded the UK-Guernsey IGA for the Automatic Exchange of Information with effect from 1 January 2016. The first reporting under CRS for Guernsey was made during 2017.

## Alternative Investment Fund Managers Directive

The Company is categorised as a non-EU Alternative Investment Fund (“AIF”). The AIFMD seeks to regulate managers of AIFs, such as the Company. It imposes obligations on AIFMs who manage AIFs in a member state of the European Economic Area (“EEA state”), or who market shares in AIFs to investors who are domiciled, or with a registered office, in an EEA state. Under the AIFMD, an AIFM must be appointed and must comply with various organisational, operational and transparency requirements.

On 28 January 2015, the Company appointed the Investment Manager to act as AIFM on behalf of the Company. The Investment Manager is responsible for fulfilling the role of the AIFM and ensuring the Company complies with the AIFMD requirements. Details of the total amount of remuneration for the financial year, split into fixed and variable remuneration, paid by the AIFM to its staff, and the number of beneficiaries, are made available to Shareholders on request to the Investment Manager.

## Share buy-backs

When appropriate, the Directors will consider the acquisitions of Ordinary Shares as part of its discount control policy, in order to address possible imbalances in the demand and supply of Ordinary Shares in the market. This could include when the Company’s Ordinary Shares have traded at a significant discount to NAV for a prolonged period of time. Conversely, shorter periods of market disruption may also create an imbalance in the demand and supply of Ordinary Shares in the market, and the Company may consider the use of share buy-backs to signal the confidence it has in the value of its underlying assets.

In advance of any share buy-backs, the Board considers: (i) whether the Company is technically able to repurchase its own shares at that point in time (including closed period and regulatory considerations); (ii) the Company’s available cash resources after supporting the dividend; (iii) the Board’s view of the prevailing value of the Fund’s net assets; and (iv) other relevant circumstances. Purchases are only made through the market for cash at prices below the estimated prevailing net asset value per Ordinary Share where the Directors believe such purchases will result in an increase in the NAV per Ordinary Share.

During the year, the Company has bought back 33,419,445 of its Ordinary Shares at a cost of £28,768,020, representing a discount to NAV that has been accretive to NAV per share for remaining Shareholders.

## Anti-bribery and corruption

The Board acknowledges that the Company’s international operations may give rise to possible claims of bribery and corruption. In consideration of The Bribery Act 2010, enacted in the UK, at the date of this report the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero-tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

## Criminal Finances Act

The Board has a zero-tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion and will not work with any service provider who does not demonstrate the same commitment. The Board has satisfied itself in relation to its key service providers that they have reasonable provisions in place to prevent the criminal facilitation of tax evasion by their own staff or any associated persons.

## UK Modern Slavery Act

The Board acknowledges the requirement to provide information about human rights in accordance with the UK Modern Slavery Act. The Board conducts the business of the Company ethically and with integrity and has a zero tolerance policy towards modern slavery in all its forms. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no further disclosures to be made in respect of employees and human rights.

## Market abuse

The Board and relevant personnel of the Investment Adviser and the other advisers acknowledge and adhere to the Market Abuse Regulation, which was implemented on 3 July 2016.

By order of the Board

**Sarika Patel**

Director

28 June 2023

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# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. The Companies (Guernsey) Law, 2008 (the "Company law") requires the Directors to prepare financial statements for each financial year. The Directors are required to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB and applicable law.

Under the Company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and its profit or loss for that year.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Company law. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom and Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors who hold office at the date of approval of the Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware, and that each Director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and for establishing that the Company's Auditor is aware of that information.

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## Responsibility statement of the Directors in respect of the Annual Report

Each of the Directors who served during the year, who are listed on pages 52 and 53, confirms to the best of their knowledge and belief that:

- the Financial Statements, prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Company, as required by DTR 4.1.12R; and
- the Management report (comprising the Chair's statement, the Investment Adviser's report, the ESG report, the strategic report, the Directors' report and other Committee reports) includes a fair review of the development and performance of the business during the year, and the position of the Company at the end of the year, together with a description of the principal risks and uncertainties that the Company faces, as required by DTR 4.1.8R and DTR 4.1.9R.

The Directors consider that the Annual Report, comprising the Financial Statements and the Management report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

**Sarika Patel**  
Director

28 June 2023



# Financial statements

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# Independent Auditor's report

To the members of Sequoia Economic Infrastructure Income Fund Limited

## Opinion

We have audited the financial statements of Sequoia Economic Infrastructure Income Fund Limited (the 'Company') for the year ended 31 March 2023, which comprise the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Financial Position, the Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by IASB; and
- comply with the Companies (Guernsey) Law, 2008.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the United Kingdom (UK) Financial Reporting Council's (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Our approach to the audit



## Overview of our audit approach

The materiality that we used for the financial statement audit was £32.3 million, which was determined on the basis of approximately 2% of the Company's net assets as at 31 March 2023.

Key audit matters were identified as:

- the valuation of non-derivative financial assets at fair value through profit or loss (same as previous year); and
- the ability of the company to continue as a going concern (Continuation Resolution) (new).

Our audit approach was a risk-based substantive audit focused on the investment activities of the Company.

There has been no change in the scope of the audit from the prior year, except the ability of the Company to continue as a going concern (Continuation Resolution) is a new key audit matter this year and we performed additional procedures to understand management's assessment of the Continuation Resolution due in August 2024 and whether it will be passed by the shareholders.

## Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.





# Independent Auditor's report continued

To the members of Sequoia Economic Infrastructure Income Fund Limited

## Valuation of non-derivative financial assets at fair value through profit or loss £1,704 million (2022: £1,770 million)

### Key audit matter description

Refer to the Report of the Audit Committee on pages 64 to 67, Note 2 (Non-Derivative financial instruments – fair value and subsequent measurement), Note 3 (Use of Judgements and Estimates), Note 5 (Financial Risk Management) and Note 6 (Non-derivative financial assets at fair value through profit or loss).

The Company's investment in Sequoia IDF Asset Holdings S.A. (the "Subsidiary") is carried at fair value through profit or loss and represents a significant proportion of the Company's net assets. The fair value of the Subsidiary reflects its net asset value, of which the most significant component is its underlying portfolio of senior and subordinated economic infrastructure loans, bonds and equity investments (together, the "Portfolio").

Every six months, the Directors, together with Sequoia Investment Management Company Limited (the "Investment Adviser"), review the credit ratings of the Portfolio to determine if investments within the Portfolio are performing<sup>1</sup> or non-performing<sup>2</sup>.

The Portfolio is principally valued on a discounted cash flow basis.

The Company engages a third-party valuation expert (the "Valuation Agent") to review the valuation calculations performed by the Investment Adviser of the Portfolio. Certain non-derivative financial assets are valued using broker quotes from pricing syndicate desks. Where such market information is not externally available, the valuations are based on yields derived from comparable loans and bonds taking into consideration the instrument's project type and structural and credit characteristics.

The valuation of the Portfolio involves complex and subjective management judgements and estimates.

The magnitude of the amounts involved means that there is the potential for material misstatement giving rise to a higher risk of misstatement requiring special audit consideration.

Since the main driver of the Company's net asset value is the valuation of the portfolio, this is the area of focus for stakeholders and a significant audit risk area, and accordingly, this has been reported as a key audit matter.

### How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- We obtained and inspected the valuation calculations, read the valuation report and held discussions with the Investment Adviser and Valuation Agent to understand the performance of the Company and its Portfolio and assessed whether the data used in the valuation calculations are appropriate and relevant;
- We engaged our internal valuation experts to assist us in performing the testing of the valuations performed by the Investment Adviser and reviewed by the Valuation Agent, which included the following:
  - assessed the competence, capabilities and objectivity of the Investment Adviser and Valuation Agent and reviewed the valuation report;
  - assisted in determining whether the valuation methodologies used to estimate the fair value of the non-derivative financial asset at fair value through profit or loss is consistent with methods usually used by market participants for similar types of instruments;
  - held discussions with the Investment Adviser and the Valuation Agent to understand how the underlying assets are performing relative to the assumptions underpinning their valuation models and to identify credit and operational issues, if any, that may impact the valuation of the portfolio; and
  - used our internal valuation expert's knowledge of the market to assess, challenge and corroborate management's valuation by reference to prices from pricing vendors, or where the pricing information was not available, derive an independent mark-to-market valuation based on inputs for comparable instruments with similar structural and credit characteristics.
- For the performing Portfolio we:
  - analysed and checked the mathematical accuracy of the discounted future cash flows provided by the Investment Adviser;
  - agreed the contractual terms such as coupon and repayment terms to supporting documentation (i.e. loan investment agreement and credit notes) obtained from the Investment Adviser;
  - compared our calculation based on the contractual terms to actual cash received and evaluated the Investment Adviser's credit memorandums to assess whether there have been specific credit events which would impact the fair value of the portfolio; and
  - performed research on publicly available information to assess for any evidence of specific credit events which would impact the fair value of the portfolio.

1. Performing portfolio pertains to investments of the Company that does not have any credit issues.

2. Non-performing portfolio pertains to investments of the Company that are facing significant credit issues and default on their obligations.

### How our scope addressed the matter

- For the non-performing Portfolio we:
  - analysed and checked the mathematical accuracy of the net present value of future cash flows provided by the Investment Adviser;
  - tested the reasonableness of assumptions used (i.e. distressed rate, discount rate, probability of collection) by obtaining supporting documents or basis of assumptions and comparing it to market data; and
  - performed research on publicly available information to assess for any evidence of specific credit events which would impact the fair value of the portfolio.
- For level 2 non-derivative investments we obtained prices from independent pricing vendors or, where this pricing information is not available, derived an independent mark to model valuation based on market inputs for comparable instruments with similar structural and credit characteristics; and
- We evaluated whether fair value disclosures in the financial statements are appropriate, complete and in accordance with the requirements of IFRS 13 Fair Value Measurement.

### Our results

We have not identified any material matters to report to those charged with governance in relation to the fair value measurement of non-derivative financial assets at fair value through profit or loss.

## Ability to continue as a going concern (Continuation Resolution)

### Key audit matter description

Refer to the Directors' Report on pages 74 to 77, Note 2 (Going Concern).

In accordance with the Company's Articles of Incorporation, the Directors are required to propose an ordinary resolution (the "Continuation Resolution") every three years. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company.

A Continuation Resolution is due to take place at the Annual General Meeting ("AGM") in August 2024. The Directors have considered the possibility that the Continuation Resolution may not be passed by Shareholders, however they noted the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016, August 2018 and August 2021, and the strong appetite for the Company's investment proposition, evidenced by a number of successful share issues, most recently in March 2022.

The ability to continue as a going concern was identified as a key audit matter given that there is judgement involved in management's assessment of the likelihood of the Continuation Resolution passing.

### How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- We assessed the determination made by the Directors that the Company is a going concern including the impact of the Continuation Resolution and the appropriateness of the financial statements to be prepared on a going concern basis; and
- We considered the Directors' assessment of the likelihood of the Continuation Resolution passing. As part of our analysis, we also considered the impact on the Company if the Continuation Resolution did not pass the going concern assessment.

As part of this evaluation, we performed the following procedures:

- we considered the composition of the shareholder register in the last 2 years and subsequent to year-end;
- we held discussions with the Investment Adviser, and members of the Board to understand their communications with Shareholders of the Company;
- we challenged their assessment of the Shareholder base and share price performance;
- we obtained and read the articles of incorporation of the Company to understand the nature of the ordinary resolution and the consequences of the resolution not passing; and
- We assessed the disclosures presented in the annual report in relation to going concern and the Continuation Resolution.

### Our results

Based on the procedures performed, we are satisfied that the Directors have appropriately considered the upcoming Continuation Resolution and we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

# Independent Auditor's report continued

To the members of Sequoia Economic Infrastructure Income Fund Limited

## Our application of materiality

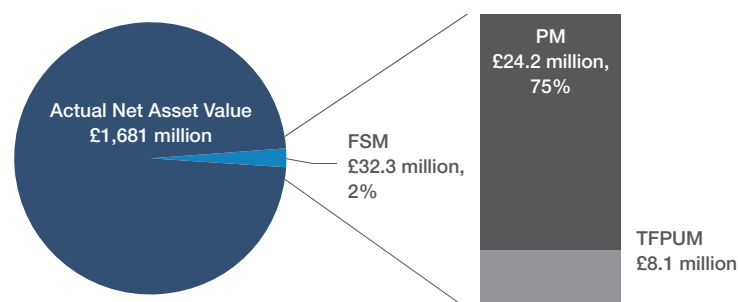
We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	Company
<b>Materiality for financial statements as a whole</b>	We define materiality as the magnitude of misstatement in the financial statements that individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£32.3 million, which represents approximately 2% of the Company's net assets as at 31 March 2023.
Significant judgements made by the auditor in determining materiality	In determining materiality, we made the following significant judgements: <ul style="list-style-type: none"> <li>• Net assets was considered the most appropriate benchmark as the Company's primary performance measures for internal and external reporting are based on net assets; and</li> <li>• Our materiality threshold was set at the lower end of our acceptable range due to the Company being a public interest entity and in line with our methodology.</li> </ul>
<b>Performance materiality used to drive the extent of our testing</b>	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£24.2 million which is 75% of financial statement materiality.
Significant judgements made by the auditor in determining the performance materiality	In determining performance materiality we made the following significant judgements: Performance materiality was set at 75% of materiality based on the quality of internal control at Company and Investment Adviser level, stability of the business, low level of corrected and uncorrected misstatements identified in the prior year and willingness of management to correct errors identified.
<b>Specific materiality</b>	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	We determined a lower specific materiality for related party transactions, including Directors' remuneration and related disclosures.
<b>Communication of misstatements to the audit committee</b>	We determined a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£1.6 million which is 5% of financial statement materiality and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

## Overall materiality



**FSM:** Financial statements materiality, **PM:** Performance materiality, **TFPUM:** Tolerance for potential uncorrected misstatements



## An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

### Understanding the Company and its environment, including controls

- The processing and recording of investment activities. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records are outsourced to third-party service providers. Accordingly, our audit work is focused on obtaining an understanding of and evaluating, internal controls at the Company and the third-party service providers, and inspecting records and documents held by these third-party service providers. In addition, the Company engages an investment manager, FundRock Management Company (Guernsey) Limited to manage the investment portfolio, which in turn engages Sequoia Investment Management Company Limited (Investment Adviser) to manage the investment portfolio. We had interaction with the Investment Manager and the Investment Adviser in completing aspects of our audit work.

### Work to be performed on financial information of the Company (including how it addressed the key audit matters)

- We undertook substantive testing on material transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks;
- The majority of our substantive testing focused on the audit of the underlying investment portfolio held through the wholly owned subsidiary and associated disclosures as at the reporting date and the movement in investment holdings during the year; and

- For subjective estimates made by management on valuing non-derivative financial assets at fair value through profit or loss, we engaged an internal expert to confirm the appropriateness of the valuation methodology used with consideration to valuation techniques routinely used by market participants to value similar instruments and to value non-derivative financial assets at fair value through profit or loss held at year-end.

### Changes in approach from previous period

- There have been no changes in the scope of current year's audit from previous year. However additional procedures were performed this year on management's assessment of the Continuation Resolution due in August 2024 and whether it will be passed by the shareholders as detailed in the 'Key Audit Matters' section above.

### Other information

The other information comprises the information included in the Annual Report and Audited Financial Statements, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report and Audited Financial Statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

### Corporate governance statement

We have reviewed the Director's statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 74;

# Independent Auditor's report continued

To the members of Sequoia Economic Infrastructure Income Fund Limited

## Corporate governance statement continued

- the Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 75;
- the Directors' statement on whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities set out on page 75;
- the Directors' statement on fair, balanced and understandable set out on page 78;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 46;
- the section of the Report and Accounts that describes the review of the effectiveness of risk management and internal control systems set out on page 61; and
- the section describing the work of the audit committee set out on pages 64 to 67.

## Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities set out on page 78, the Directors are responsible for the preparation of the financial statements which give a true and fair view and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the following laws and regulations were most significant: International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), the Companies (Guernsey) Law, 2008, as amended, the Registered Collective Investment Schemes Rules and Guidance 2021, the Association of Investment Companies (AIC) Code of Corporate Governance, Alternative Investment Fund Managers Directive ("AIFMD"), FCA Disclosure Guidance and Transparency Rules, European Securities and Markets Authority ("ESMA"), EU Market Abuse Regulations, Task Force on Climate-Related Financial Disclosures ("TCFD"), Sustainable Finance Disclosure Regulation ("SFDR"), and the relevant tax compliance regulations in the jurisdictions in which the Company operates.

In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and bribery and corruption practices;

- We obtained an understanding of how the Company is complying with those legal and regulatory frameworks by, making inquiries to the management, and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee. We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates; and
  - identifying and testing journal entries that exhibit certain risk characteristics determined by the engagement team and corroborating to supporting documents to understand management's rationale and economic substance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included an evaluation of the risk of management override of controls. Audit procedures performed by the engagement team in connection with the risks identified included:

- evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud; and
- testing journal entries, including manual journal entries processed at the year-end for financial statements preparation.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
  - knowledge of the industry in which the Company operates; and
  - understanding of the legal and regulatory frameworks applicable to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Company's operations, including the nature of its revenue sources, products and services and its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
  - the applicable statutory provisions; and
  - the Company's control environment, including:
    - the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation rules and other regulations of the regulator;
    - the adequacy of procedures for authorisation of transactions, internal review procedures over the Company's compliance with regulatory requirements;
    - the authority of, and resources available to the compliance officer; and
    - procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other matters which we are required to address

We were appointed by the Board on 8 December 2021 to audit the financial statements for the year ended 31 March 2022. Our total uninterrupted period of engagement is 2 years, covering the periods ended 31 March 2022 to 31 March 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Cyril Swale

### For and on behalf of Grant Thornton Limited

Chartered Accountants

St Peter Port  
Guernsey

Date: 29 June 2023

# Statement of comprehensive income

For the year ended 31 March 2023

	Note	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
<b>Revenue</b>			
Net gains on non-derivative financial assets at fair value through profit or loss	6	<b>131,365,452</b>	24,943,293
Net losses on derivative financial assets at fair value through profit or loss	7	<b>(96,628,102)</b>	(39,932,471)
Investment (loss)/income	9	<b>(23,659,872)</b>	99,457,170
Net foreign exchange losses		<b>(1,513,107)</b>	(1,023,582)
<b>Total revenue</b>		<b>9,564,371</b>	83,444,410
<b>Expenses</b>			
Investment Adviser fees	10	<b>11,989,220</b>	11,836,201
Investment Manager fees	10	<b>369,422</b>	349,634
Directors' fees and expenses		<b>366,699</b>	305,202
Administration fees	10	<b>440,937</b>	453,630
Auditor's fees		<b>201,990</b>	188,598
Legal and professional fees <sup>2</sup>		<b>2,973,313</b>	1,327,377
Valuation fees		<b>741,000</b>	821,400
Custodian fees		<b>255,108</b>	255,221
Listing, regulatory and statutory fees		<b>143,257</b>	168,318
Other expenses		<b>497,307</b>	497,617
<b>Total operating expenses</b>		<b>17,978,253</b>	16,203,198
Loan finance costs	15	<b>9,534,772</b>	4,522,522
<b>Total expenses</b>		<b>27,513,025</b>	20,725,720
<b>Profit and total comprehensive (loss)/income for the year</b>		<b>(17,948,654)</b>	62,718,690
<b>Basic and diluted (loss)/earnings per Ordinary Share</b>	13	<b>(1.02)p</b>	3.55p

1. See note 18.

2. Legal and professional fees include an amount of £2,218,093 (2022: £666,019) in respect of fees relating to the Fund's investment in Bulb Energy.

All items in the above statement are from continuing operations.

The accompanying notes on pages 92 to 118 form an integral part of the Financial Statements.



# Statement of changes in Shareholders' equity

For the year ended 31 March 2023

Year ended 31 March 2023	Note	Share capital £	Retained losses £	Total £
<b>At 1 April 2022</b>		<b>1,837,390,531</b>	<b>(60,347,699)</b>	<b>1,777,042,832</b>
Ordinary Shares buy-backs during the year	12	<b>(28,768,020)</b>	—	<b>(28,768,020)</b>
Total comprehensive loss for the year		—	<b>(17,948,654)</b>	<b>(17,948,654)</b>
Dividends paid during the year	4	—	<b>(112,472,856)</b>	<b>(112,472,856)</b>
<b>At 31 March 2023</b>		<b>1,808,622,511</b>	<b>(190,769,209)</b>	<b>1,617,853,302</b>

Year ended 31 March 2022	Note	Share capital £	Retained (losses)/ earnings £	Total £
<b>At 1 April 2021</b>		1,831,856,145	(12,725,764)	1,819,130,381
Issue of Ordinary Shares during the year, net of issue costs	12	5,534,386	—	5,534,386
Total comprehensive income for the year		—	62,718,690	62,718,690
Dividends paid during the year	4	—	(110,340,625)	(110,340,625)
<b>At 31 March 2022</b>		1,837,390,531	(60,347,699)	1,777,042,832

The accompanying notes on pages 92 to 118 form an integral part of the Financial Statements.

# Statement of financial position

At 31 March 2023

	Note	31 March 2023 £	Restated <sup>1</sup> 31 March 2022 £
<b>Non-current assets</b>			
Non-derivative financial assets at fair value through profit or loss	6	<b>1,861,431,678</b>	1,822,486,404
<b>Current assets</b>			
Cash and cash equivalents	8	<b>7,363,120</b>	8,759,040
Trade and other receivables	14	<b>1,605,043</b>	90,628,696
Derivative financial assets at fair value through profit or loss	7	<b>23,254,199</b>	17,536,684
<b>Total current assets</b>		<b>32,222,362</b>	116,924,420
<b>Total assets</b>		<b>1,893,654,040</b>	1,939,410,824
<b>Current liabilities</b>			
Trade and other payables	16	<b>62,951,554</b>	3,855,430
Derivative financial liabilities at fair value through profit or loss	7	<b>31,060,322</b>	37,143,642
<b>Total current liabilities</b>		<b>94,011,876</b>	40,999,072
<b>Non-current liabilities</b>			
Loan payable	15	<b>181,788,862</b>	121,368,920
<b>Total liabilities</b>		<b>275,800,738</b>	162,367,992
<b>Net assets</b>		<b>1,617,853,302</b>	1,777,042,832
<b>Equity</b>			
Share capital	12	<b>1,808,622,511</b>	1,837,390,531
Retained losses		<b>(190,769,209)</b>	(60,347,699)
<b>Total equity</b>		<b>1,617,853,302</b>	1,777,042,832
<b>Number of Ordinary Shares</b>	12	<b>1,734,819,553</b>	1,768,238,998
<b>Net asset value per Ordinary Share</b>		<b>93.26p</b>	100.50p

1. See note 18.

The Financial Statements on pages 88 to 118 were approved and authorised for issue by the Board of Directors on 28 June 2023 and signed on its behalf by:

**Sarika Patel**

Director

The accompanying notes on pages 92 to 118 form an integral part of the Financial Statements.

# Statement of cash flows

For the year ended 31 March 2023

	Note	31 March 2023 £	Restated <sup>1</sup> 31 March 2022 £
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		<b>(17,948,654)</b>	62,718,690
Adjusted for:			
Net gains on non-derivative financial assets at fair value through profit or loss	6	<b>(131,365,452)</b>	(24,943,293)
Net losses on derivative financial assets at fair value through profit or loss	7	<b>96,628,102</b>	39,932,471
VFN capitalised interest	6	<b>—</b>	(7,309,761)
Investment income		<b>23,659,872</b>	(99,457,170)
Investment Adviser fees settled through issue of Ordinary Shares		<b>—</b>	878,100
Net foreign exchange losses		<b>1,513,107</b>	1,023,582
Loan finance costs	15	<b>9,534,772</b>	4,522,522
Decrease/(increase) in trade and other receivables (excluding prepaid finance costs and investment income)	14	<b>521,871</b>	(570,064)
Increase in trade and other payables (excluding accrued finance costs, investment income and Ordinary Share buy-backs)	16	<b>67,578</b>	45,287
		<b>(17,388,804)</b>	(23,159,636)
Cash received on settled forward contracts		<b>16,174,078</b>	43,775,627
Cash paid on settled forward contracts		<b>(124,603,014)</b>	(16,124,456)
Cash investment income received		<b>122,355,919</b>	119,485,939
Purchases of investments	6	<b>(302,102,305)</b>	(399,588,003)
Sales of investments	6	<b>394,522,483</b>	339,810,204
<b>Net cash inflow from operating activities</b>		<b>88,958,357</b>	64,199,675
<b>Cash flows from financing activities</b>			
Proceeds from loan drawdowns	15	<b>138,712,919</b>	36,023,268
Loan repayments	15	<b>(80,000,000)</b>	—
Payment of loan finance costs		<b>(9,058,791)</b>	(5,772,304)
Ordinary Share buy-backs <sup>2</sup>		<b>(27,770,733)</b>	—
Dividends paid (excluding scrip dividends) <sup>3</sup>		<b>(112,472,856)</b>	(105,684,339)
<b>Net cash outflow from financing activities</b>		<b>(90,589,461)</b>	(75,433,375)
<b>Net decrease in cash and cash equivalents</b>		<b>(1,631,104)</b>	(11,233,700)
<b>Cash and cash equivalents at beginning of year</b>		<b>8,759,040</b>	20,018,189
Effect of foreign exchange rate changes on cash and cash equivalents during the year		<b>235,184</b>	(25,449)
<b>Cash and cash equivalents at end of year</b>		<b>7,363,120</b>	8,759,040

1. See note 18.

2. Excludes non-cash transactions. For details, refer to note 12.

3. Excludes non-cash transactions. For details, refer to note 4.

The accompanying notes on pages 92 to 118 form an integral part of the Financial Statements.

# Notes to the Financial Statements

For the year ended 31 March 2023

## 1. General information

Sequoia Economic Infrastructure Income Fund Limited (the "Company") was incorporated and registered in Guernsey under the Companies (Guernsey) Law, 2008 on 30 December 2014. The Company's registration number is 59596 and it is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules and Guidance 2021. The Company is listed and began trading on the Main Market of the London Stock Exchange and was admitted to the premium segment of the Official List of the UK Listing Authority on 3 March 2015.

The Company makes its investments principally through its subsidiary domiciled in Luxembourg, Sequoia IDF Asset Holdings S.A. (the "Luxembourg Subsidiary"). The Company controls the Luxembourg Subsidiary through a holding of 100% of its shares. The Company further invests in the Luxembourg Subsidiary through the acquisition of Variable Funding Notes ("VFNs") issued by the Luxembourg Subsidiary.

During the year, the Company has established an additional immediate subsidiary domiciled in the United Kingdom, Yotta Bidco Limited (the "UK Subsidiary"). The Company controls the UK Subsidiary through a holding of 100% of its shares.

Through the Luxembourg Subsidiary and the UK Subsidiary (together "the Subsidiaries"), the Company invests in a diversified portfolio of senior and subordinated economic infrastructure debt investments.

In 2021, as a result of the restructuring of a borrower group in which the Luxembourg Subsidiary had invested, the Luxembourg Subsidiary acquired 100% of the shares of three newly incorporated Delaware-domiciled investment holding entities (the "Underlying Subsidiaries"), as follows:

- Fussell Circus Capital, Inc.;
- Mears Square Advisors, Inc.; and
- Bajtos Lane Management, Inc.

With effect from 28 January 2015, Sequoia Investment Management Company Limited (the "Investment Adviser") was appointed as the Investment Adviser and FundRock Management Company (Guernsey) Limited (formerly International Fund Management Limited (the "Investment Manager") was appointed as the Investment Manager.

## 2. Significant accounting policies

### Statement of compliance

The Annual Financial Statements (the "Financial Statements"), which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and are in compliance with the Companies (Guernsey) Law, 2008, the Listing Rules and the FCA Disclosure Guidance and Transparency Rules.

### Basis of preparation

The Company's Financial Statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and judgements are discussed in note 3. The principal accounting policies adopted are set out below.

The Directors believe that the Annual Report and Financial Statements contain all of the information required to enable Shareholders and potential investors to make an informed appraisal of the investment activities and profits and losses of the Company for the year to which it relates and does not omit any matter or development of significance.

In accordance with the investment entities exemption contained in IFRS 10, "Consolidated Financial Statements", the Board has determined that the Company satisfies the criteria to be regarded as an investment entity and that the Company provides investment-related services. As a result, the Company is required to only prepare separate Financial Statements under IFRS and measures its investment in its Subsidiaries at fair value. This determination involves a degree of judgement (see note 3 for further details).

### Going concern

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors are required to propose an ordinary resolution (the "Continuation Resolution") every three years. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company.

The Directors have considered the possibility that the next Continuation Resolution, to be proposed at the 2024 AGM, may not be passed by Shareholders. The Directors noted a number of factors in this regard:

- the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016, August 2018 and August 2021;
- the strong appetite for the Company's investment proposition, evidenced by a number of successful share issues, most recently in March 2021;
- The Company has a low level of gearing, at less than 10% of total assets;
- the Fund's portfolio is well-positioned to take advantage of increases in interest rates due to its increased exposure to floating rate investments; and
- the strength of the Company's cashflow has resulted in an increase in dividend cover and enabled it to increase its dividend target by 10% during the current year.



The Directors have also held discussions with the Company's Broker, Investment Adviser and a number of significant Shareholders which have led them to believe that the likelihood of the Continuation Resolution failing is low. They also noted that the rejection of a Continuation Proposal by Shareholders does not necessarily oblige the Directors to wind up the Company.

The Directors have reviewed the Fund's holdings in cash and cash equivalents and investments, including a consideration of the impact on the portfolio of the market uncertainty related to the Russian invasion of Ukraine and of the current economic environment of increasing interest rates and inflation. The Directors have also considered the impact on the Company's liquidity arising from margin calls relating to the Company's forward foreign exchange positions.

In conducting this review, the Board has also considered the sustainability of the environmental and social impact of the Company's activities. The Company has a strong balance sheet, with a low level of gearing. As with the effects of the COVID-19 pandemic, the losses that have been incurred – which have and will reverse as the investments move closer to maturity and their valuations accrete to par – are unrealised, and therefore have no direct effect on the solvency of the business. The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Fund's investment portfolio. The Directors also note that the interest income cash flow of the Fund has increased substantially during the period, as several borrowers who had been permitted to capitalise interest during the COVID-19 pandemic and other economic issues of the last two years have resumed paying cash interest. The interest income cash flows of the Fund remain sufficient to cover operating costs and to pay the Company's increased target dividend.

As a result of this review, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company, despite the current challenging economic environment, retains a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

### Amended accounting standards effective and adopted

- IAS 37 (amended), "Provisions, Contingent Liabilities and Contingent Assets" (amendments regarding the costs to include when determining whether a contract is onerous, effective for periods commencing on or after 1 January 2022).

In addition, in May 2020, the IASB completed the following projects:

- "Annual Improvements to IFRS Standards 2018-2020"; and
- "Amendments updating a reference to the Conceptual Framework".

These projects amended certain existing standards effective for accounting periods commencing on or after 1 January 2022. The adoption of these amended standards has had no material impact on the Financial Statements of the Company.

### Amended accounting standards applicable to future reporting periods

- IAS 1 (amended), "Presentation of Financial Statements" (amendments regarding the disclosure of accounting policies, effective for periods commencing on or after 1 January 2023; and regarding the classification of liabilities and of debt with covenants, effective for periods commencing on or after 1 January 2024).
- IAS 8 (amended), "Accounting Policies, Changes in Accounting Estimates and Errors" (amendments regarding the definition of accounting estimates, effective for periods commencing on or after 1 January 2023).

The Directors do not anticipate that the adoption of these amended standards in future periods will have a material impact on the Financial Statements of the Company.

## Investment income

Investment income is recognised in profit or loss of the Statement of Comprehensive Income on the effective interest rate method basis and includes interest income from the Company's investment in VFNs issued by the Luxembourg Subsidiary and from cash and cash equivalents.

### VFN interest

Interest on VFNs issued by the Luxembourg Subsidiary is paid to the Company on a quarterly basis. VFN interest is calculated on an accruals basis, as the net amount of revenue and realised gains receivable in the quarter by the Luxembourg Subsidiary deriving from its investments and cash and cash equivalents, less any realised losses or impairments on investments and expenses due or payable by the Luxembourg Subsidiary.

## Net gains/(losses) on financial assets at fair value through profit or loss

Net gains/(losses) on financial assets at fair value through profit or loss consists of realised and unrealised gains and losses on both non-derivative and derivative financial assets at fair value through profit or loss, and are recognised in profit or loss in the Statement of Comprehensive Income. Gains or losses on non-derivative financial instruments are calculated as described in the section "Non-derivative financial instruments – fair value and subsequent measurement" within this note; gains or losses on derivative financial instruments are calculated as described in the section "Derivative financial instruments – fair value and subsequent measurement" within this note.

## Expenses

Expenses of the Company are recognised in profit or loss of the Statement of Comprehensive Income on an accruals basis.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 2. Significant accounting policies continued

### Share-based payments (equity-settled)

In accordance with the terms of the Investment Advisory Agreement, one tenth of the Investment Adviser's fee is settled through the issue of Ordinary Shares in the Company, subject to market conditions. During the year, due to the discount of the Company's Ordinary Share price to NAV, the Investment Adviser's fees were paid entirely in cash, with an obligation on the part of the Investment Adviser to use one tenth of the fee to acquire Ordinary Shares in the market (see note 10). Services received in exchange for the grant of any share-based payments are measured at the fair value of the services received. Share-based payments are recognised as an expense in profit or loss of the Statement of Comprehensive Income and in equity as an increase in share capital.

### Ordinary Shares

The Ordinary Shares of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32. The proceeds from the issue of Ordinary Shares are recognised in the Statement of Changes in Shareholders' Equity, net of issue costs.

### Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes. Certain amounts of the Company's cash may be held as collateral against the Company's forward foreign exchange trading facilities (see note 8).

### Financial instruments

#### Classification

The Company classifies its financial assets and financial liabilities into categories in accordance with IFRS 9, "Financial Instruments".

### Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities classified in this category are designated by management on initial recognition as part of a group of financial assets and/or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. This category includes the Company's non-derivative financial assets (investment in shares and VFNs issued by the Subsidiaries) and derivative financial assets and liabilities (forward foreign exchange contracts). The investment entities exception to consolidation in IFRS 10, "Consolidated Financial Statements" requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IFRS 9.

### Non-derivative financial assets at amortised cost

This category comprises cash and cash equivalents and trade and other receivables, other than prepaid expenses.

### Non-derivative financial liabilities at amortised cost

This category comprises loans payable and trade and other payables.

### Recognition and initial measurement

Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, being the transaction price, on the trade date. Transaction costs on financial assets at fair value through profit or loss are expensed immediately. Financial assets or financial liabilities not at fair value through profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

### Non-derivative financial instruments – fair value and subsequent measurement

After initial measurement, the Company measures non-derivative financial assets classified at fair value through profit or loss at their fair values. Changes in fair value are recorded within "Net gains/(losses) on non-derivative financial assets at fair value through profit or loss" in the Statement of Comprehensive Income. This account includes foreign exchange differences but excludes VFN interest income.

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Please refer to note 6 for further details.

### Non-derivative financial instruments – amortised cost measurement

After initial measurement, other financial liabilities are measured at amortised cost using the effective interest rate method. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any allowance for expected credit losses.

At each reporting date, the Company measures the loss allowance on financial assets carried at amortised cost at an amount equal to the lifetime expected credit losses, if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to 12-month expected credit losses. The expected credit losses are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the financial asset, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including the time value of money where appropriate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and exposure at the default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

As at 31 March 2023 and 31 March 2022, the carrying amount of the short-term receivables and payables approximate their fair value.

#### Derivative financial instruments – fair value and subsequent measurement

The Company holds derivative financial instruments to minimise its exposure to foreign exchange risks and from time to time may also hold derivative financial instruments to minimise its exposure to interest rate risks or for economic leveraging. Derivatives are classified as financial assets or financial liabilities (as applicable) at fair value through profit or loss and are initially recognised at fair value; attributable transaction costs are recognised in profit or loss in the Statement of Comprehensive Income when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes thereto are recorded within "Net gains/(losses) on derivative financial instruments at fair value through profit or loss" in the Statement of Comprehensive Income.

This account includes foreign exchange differences but excludes interest income. The fair values of derivative transactions are measured using their market prices at the reporting date.

#### Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards thereof are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Foreign currency

##### Functional and presentation currency

The Financial Statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The Directors have considered the primary economic currency of the Company; the currency in which the original finance was raised; the currency in which distributions will be made; and ultimately what currency would be returned to Shareholders if the Company was wound up. The Directors have also considered the currency to which the Company's investments are exposed. On balance, the Directors believe that Sterling best represents the functional currency of the Company during the year. Therefore, the books and records are maintained in Sterling and, for the purpose of the Financial Statements, the results and financial position of the Company are presented in Sterling, which has been selected as the presentation currency of the Company.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency balances at the year end are translated into the functional currency at the exchange rates prevailing at the year-end date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of the Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

#### Dividends

Interim dividends paid to Shareholders are recorded through the Statement of Changes in Shareholders' Equity when they are declared to Shareholders. Final dividends are recorded through the Statement of Changes in Shareholders' Equity when they are approved by Shareholders. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008.

#### Segmental reporting

The Chief Operating Decision Maker, which is the Board, is of the opinion that the Company is engaged in a single segment of business, through its investment in the Subsidiaries, being investment in senior and subordinated infrastructure debt instruments and related and/or similar assets, with the aim of providing sustained long-term distributions and capital appreciation. The financial information used by the Chief Operating Decision Maker to manage the Company presents the business as a single segment.

Segment information is measured on the same basis as that used in the preparation of the Company's Financial Statements.

The Company receives no revenues from external customers. Other than the UK Subsidiary, which is a United Kingdom company, the Luxembourg Subsidiary, which is a Luxembourg company, and its underlying subsidiaries, which are Delaware companies, the Company holds no non-current assets in any geographical area other than Guernsey.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 3. Use of judgements and estimates

The preparation of Financial Statements in accordance with IFRS requires the Board to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a semi-annual basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The principal judgements and estimates are as follows:

### Judgements

#### Functional currency

Refer to note 2 “Functional and presentation currency”.

### Going concern

Refer to note 2 ‘Going concern’.

#### Investment entity

The Board has determined that the Company has all the elements of control as prescribed by IFRS 10 in relation to the Subsidiaries and the Underlying Subsidiaries, as the Company owns 100% of the equity of each of the Subsidiaries (and the Luxembourg Subsidiary owns 100% of the equity of the Underlying Subsidiaries), is exposed and has rights to the returns of the Subsidiaries and the Underlying Subsidiaries, and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Subsidiaries and Underlying Subsidiaries.

The Company provides investment management services and has a number of investors who pool their funds to gain access to these services and investment opportunities that they might not have had access to individually. The Company, being listed on the Main Market of the London Stock Exchange, obtains funding from a diverse group of external Shareholders, to whom it has committed that its business purpose is to invest funds solely for the returns from capital appreciation and investment income.

The Company has two direct investments – the Luxembourg Subsidiary and the UK Subsidiary – in each of which it holds 100% of the equity, however its investments in the Subsidiaries are used to acquire exposure to a portfolio comprising a large number of investments. The fair value method is used to represent the Subsidiaries’ performance in its internal reporting to the Board, and to evaluate the performance of the Subsidiaries’ investments and to make investment decisions for mature investments. Those investments have documented maturity/redemption dates, or will be sold if other investments with better risk/reward profiles are identified, which the Directors consider demonstrates a clear exit strategy.

The Subsidiaries serve as asset holding companies and do not provide investment-related services.

Accordingly, when the Subsidiaries are assessed based on the structure of the Company and its Subsidiaries as a whole as a means of carrying out activities, the Board has concluded that the Company satisfies sufficient of the criteria above to meet the definition of an investment entity. As a result, under the terms of IFRS 10, the Company is not permitted to consolidate the Subsidiaries, but must measure its investments in the Subsidiaries at fair value through profit or loss. The Company has determined that the fair values of the Subsidiaries are the Subsidiaries’ net asset values and has concluded that the Subsidiaries meet the definition of unconsolidated subsidiaries under IFRS 12 and has made the necessary disclosures.

### Estimates

#### Fair value of non-derivative and derivative financial instruments at fair value through profit or loss

The Company records its investment in the Subsidiaries and in forward foreign exchange contracts at fair value. Details of the valuation methodologies applied in determining the fair value of the Subsidiaries and its underlying infrastructure investments are disclosed in note 6. The valuations of forward foreign exchange contracts are prepared with reference to prevailing exchange rates. The Directors consider that these valuations represent the best estimate of the fair values of the Company’s investments in the Subsidiaries and their underlying infrastructure investments and in forward foreign exchange contracts.

## 4. Dividends

On 24 November 2022, the Board resolved to increase its annual dividend target from 6.25p to 6.875p. As a result, with effect from the dividend due to be paid in respect of the quarter ended 31 December 2022, and in the absence of any significant restricting factors, the Board expects to pay dividends totalling 6.875p per Ordinary Share per annum. The Company pays dividends on a quarterly basis.

The Company declared the following dividends on its Ordinary Shares during the year ended 31 March 2023:

Period to	Payment date	Dividend rate per Ordinary Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2022	9 June 2022	1.56250	27,628,734	29 April 2022	28 April 2022
30 June 2022	26 August 2022	1.56250	27,553,181	29 July 2022	28 July 2022
30 September 2022	25 November 2022	1.56250	27,281,624	28 October 2022	27 October 2022
31 December 2022	24 February 2023	1.71875	30,009,317	27 January 2023	26 January 2023

On 20 April 2023, the Company declared an interim dividend of 1.71875p per Ordinary Share in respect of the quarter ended 31 March 2023. The dividend was paid on 26 May 2023.

The Company paid the following dividends on its Ordinary Shares during the year ended 31 March 2022:

Period to	Payment date	Dividend rate per Ordinary Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2021	24 May 2021	1.56250	27,548,730	30 April 2021	29 April 2021
30 June 2021	6 September 2021	1.56250	27,577,235	30 July 2021	29 July 2021
30 September 2021	3 December 2021	1.56250	27,599,092	29 October 2021	28 October 2021
31 December 2021	4 March 2022	1.56250	27,615,568	28 January 2022	27 January 2022

Under Guernsey law, the Company can pay dividends in excess of its retained earnings provided it satisfies the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether the Company is able to pay its debts when they fall due, and whether the value of the Company's assets is greater than its liabilities. The Company satisfied the solvency test in respect of all dividends declared or paid in the year.

At an Extraordinary General Meeting of the Company held on 25 February 2020, Shareholders authorised the Directors to offer Shareholders a scrip dividend alternative instead of cash. On 10 July 2020, the Company published a circular setting out the terms of the scrip dividend alternative. The first such dividend to include the scrip dividend alternative was paid in August 2020.

On 6 May 2022, the Directors suspended the scrip dividend alternative, due to the continuing discount of the Company's Ordinary Share price to the NAV, which has persisted throughout the year. As a result, no scrip dividends were paid during the year ended 31 March 2023 (2022: £4,656,286).

## 5. Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. Below is a non-exhaustive summary of the risks that the Company is exposed to as a result of its use of financial instruments:

### Market risk

Market risk is the risk that changes in market factors such as foreign exchange rates, interest rates and equity prices will affect the Company's income and/or the value of its holdings in financial instruments.

The Company's exposure to market risk comes mainly from movements in the value of its investment in the Subsidiaries and on a look-through basis to the underlying investments in the Subsidiaries' portfolios. Changes in credit spreads (in the case of bond or loan investments) or in discount rates (in the case of private equity investments) may further affect the Subsidiaries' net equity or net income, and hence the value of the Company's investment in the Subsidiaries.



# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 5. Financial risk management continued

### Market risk continued

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The Company's strategy for the management of market risk is driven by its investment objective to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure investments, which are held in portfolios at the Subsidiary level. The various components of the Company's market risk are managed on a daily basis by the Investment Manager in accordance with policies and procedures in place, as detailed below.

In addition, the Company, through its Subsidiaries, intends to mitigate market risk generally by not making investments that would cause it to have exposure to any one individual infrastructure asset exceeding 10% of the Fund's investments at the time of investment. The Subsidiaries' market positions are monitored on a quarterly basis by the Board of Directors and by the Investment Manager at the point of investment and on an ongoing basis.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Subsidiaries' interest-bearing financial assets and liabilities expose them to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows.

The Company is exposed to cash flow interest rate risk in respect of its cash and cash equivalents and the floating rate debt investments held by the Subsidiaries and to fair value interest rate risk in respect of the fixed rate debt investments held by the Subsidiaries.

As the Company and the Subsidiaries have no investment restrictions which would confine their investment universe to short-dated issues, the Investment Manager is mindful that fixed interest portfolios with longer durations may be subject to relatively greater adverse effects of a rising interest rate environment and inflationary considerations.

Interest rate risk is mitigated through the diversification of assets by duration and jurisdiction and with maintaining in excess of 50% of its portfolio in floating rate or inflation-linked debt.

Interest receivable on bank deposits or payable on loans or bank overdraft positions will be affected by fluctuations in interest rates. Interest rate risk on cash and cash equivalents and loans payable is not considered significant.

The following table shows the interest rate profile of the Subsidiaries' investment portfolios:

	31 March 2023		31 March 2022	
	Range of interest rates	£	Range of interest rates	£
Investments with floating interest rates	0.00% to 21.20%	998,466,528	0.00% to 13.01%	903,607,228
Investments with fixed interest rates	0.00% to 18.00%	690,745,979	0.00% to 18.00%	885,571,623
Non-interest-bearing investments	N/A	34,260,599	N/A	15,353,710
Financial assets at fair value through profit or loss (note 6)		1,723,473,106		1,804,532,561

The following table shows the Directors' best estimate of the sensitivity of the Subsidiaries' portfolios of investments to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves and is based on the modified duration of the assets.

Possible reasonable change in interest rate	31 March 2023 effect on net assets and profit or loss £	31 March 2022 effect on net assets and profit or loss £
+3%	(77,509,281)	(37,382,019)
-3%	82,473,342	40,110,729

The possible change in the interest rate of 3% (2022: 1%) is regarded as reasonable in the context of the current inflationary environment and increases in the levels of global interest rates during the year.

Under the terms of the Prospectus, the Company is permitted to use interest rate hedging instruments to protect against exposure to interest rate risk. However, no such hedging arrangements were entered into during the prior or current years and none were in place at the prior or current year end.

## Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is directly exposed to currency risk in respect of its cash and cash equivalents and derivatives denominated in currencies other than Sterling, and indirectly through its investment in the Luxembourg Subsidiary.

The functional and presentational currency of the Company is Sterling. The Company invests in its Luxembourg Subsidiary through VFNs denominated in various currencies other than the functional currency, currently US Dollar, Euro, Australian Dollar, Swiss Franc and Polish Zloty. The Luxembourg Subsidiary in turn invests in financial instruments and enters into transactions that are denominated in currencies other than the functional currency. Consequently, the Company is exposed to the risk that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of the Company's financial assets or liabilities.

The Investment Manager monitors the exposure to foreign currencies and reports to the Board on a regular basis. The Investment Manager measures the risk of the foreign currency exposure by considering the effect on the net asset value and income of a movement in the rates of exchange to which the assets, liabilities, income and expenses are exposed. A currency hedging programme is in place at the Company level, in line with the intentions stated in the Prospectus, to protect against the effects of currency exposure on the future income arising from the underlying portfolio of investments held by the Luxembourg Subsidiary.

The total net foreign currency exposure of the Company and the Subsidiaries combined at the year end was as detailed in the following table. These figures have been presented on a combined basis, as there exist foreign currency assets and liabilities in both the Company and the Luxembourg Subsidiary, and the forward foreign exchange contracts held at the Company level (see note 7) are taken out to hedge currency exposure existing at the Luxembourg Subsidiary level.

	<b>31 March 2023</b>
	<b>£</b>
<b>USD exposure</b>	
Financial assets at fair value through profit or loss	<b>804,014,880</b>
Forward foreign exchange contracts	<b>(766,653,438)</b>
Cash and cash equivalents	<b>29,035,063</b>
Trade and other receivables	<b>6,759,408</b>
Loan payable	<b>(102,046,294)</b>
<b>Net USD exposure</b>	<b>(28,890,381)</b>
<b>EUR exposure</b>	
Financial assets at fair value through profit or loss	<b>409,028,757</b>
Forward foreign exchange contracts	<b>(453,236,998)</b>
Cash and cash equivalents	<b>7,414,835</b>
Trade and other receivables	<b>6,636,046</b>
Trade and other payables	<b>(198,842)</b>
<b>Net EUR exposure</b>	<b>(30,356,202)</b>
<b>CHF exposure</b>	
Financial assets at fair value through profit or loss	<b>39,537,964</b>
Forward foreign exchange contracts	<b>(41,094,014)</b>
Cash and cash equivalents	<b>829,503</b>
Trade and other receivables	<b>9,130</b>
<b>Net CHF exposure</b>	<b>(717,417)</b>

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 5. Financial risk management continued

### Market risk continued

#### Currency risk continued

31 March 2023  
£

#### PLN exposure

Financial assets at fair value through profit or loss	27,658,008
Forward foreign exchange contracts	(25,491,769)
Cash and cash equivalents	816,638
Trade and other receivables	155,624
<b>Net PLN exposure</b>	<b>3,138,501</b>

#### AUD exposure

Financial assets at fair value through profit or loss	2,499,322
Forward foreign exchange contracts	(2,880,727)
Cash and cash equivalents	192,176
Trade and other receivables	249,580
<b>Net AUD exposure</b>	<b>60,351</b>

**Total exposure** (56,765,148)

31 March 2022  
£

#### USD exposure

Financial assets at fair value through profit or loss	1,006,916,909
Forward foreign exchange contracts	(968,553,620)
Cash and cash equivalents	30,860,267
Trade and other receivables	9,761,497
Loan payable	(42,626,352)
Trade and other payables	(108,791)
<b>Net USD exposure</b>	<b>36,249,910</b>

#### EUR exposure

Financial assets at fair value through profit or loss	478,813,768
Forward foreign exchange contracts	(571,624,503)
Cash and cash equivalents	25,719,623
Trade and other receivables	7,295,584
Trade and other payables	(26,147)
<b>Net EUR exposure</b>	<b>(59,821,675)</b>

#### NOK exposure

Financial assets at fair value through profit or loss	19,366,717
Forward foreign exchange contracts	(18,312,662)
Cash and cash equivalents	467,594
Trade and other receivables	157,688
<b>Net NOK exposure</b>	<b>1,679,337</b>

31 March 2022  
£**AUD exposure**

Financial assets at fair value through profit or loss	8,215,427
Forward foreign exchange contracts	(9,174,312)
Trade and other receivables	1,033,775
<b>Net AUD exposure</b>	74,890
<b>Total exposure</b>	(21,817,538)

	Possible reasonable change in exchange rate	31 March 2023 net exposure £	31 March 2023 effect on net assets and profit or loss £	Possible reasonable change in exchange rate	31 March 2022 net exposure £	31 March 2022 effect on net assets and profit or loss £
USD/GBP	+/- 10%	<b>(28,890,381)</b>	<b>-/+ 2,889,038</b>	+/- 5%	36,249,910	+/- 1,812,496
EUR/GBP	+/- 10%	<b>(30,356,202)</b>	<b>-/+ 3,035,620</b>	+/- 5%	(59,821,675)	-/+ 2,991,084
NOK/GBP	+/- 10%	—	—	+/- 5%	1,679,337	+/- 83,967
CHF/GBP	+/- 10%	<b>(717,417)</b>	<b>-/+ 71,742</b>	+/- 5%	—	—
PLN/GBP	+/- 10%	<b>3,138,501</b>	<b>+/- 313,850</b>	+/- 5%	—	—
AUD/GBP	+/- 10%	<b>60,351</b>	<b>+/- 6,035</b>	+/- 5%	74,890	+/- 3,745

The possible change in exchange rates of 10% (2022: 5%) is regarded as reasonable, due to the increased volatility during the year of Sterling against the major currencies to which it is exposed.

The following table details the split of currencies based on fair value of bonds and loans in the Subsidiaries' investment portfolios:

Currency	31 March 2023 £	31 March 2022 £
Sterling	<b>440,734,175</b>	291,219,740
US Dollar	<b>804,014,880</b>	1,006,916,909
Euro	<b>409,028,757</b>	478,813,768
Norwegian Krone	—	19,366,717
Swiss Franc	<b>39,537,964</b>	—
Polish Zloty	<b>27,658,008</b>	—
Australian Dollar	<b>2,499,322</b>	8,215,427
<b>Total</b>	<b>1,723,473,106</b>	1,804,532,561

**Credit and counterparty risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company or the Subsidiaries or a vehicle in which the Company or Subsidiaries invests, resulting in a financial loss to the Company. It arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk).

In respect of the debt investments, credit risk is the risk that the fair value of a loan (or more generally, a stream of debt payments) will decrease due to a change in the borrower's ability to make payments, whether that change is an actual default or a change in the borrower's probability of default.

The Investment Manager's management of the Subsidiaries' portfolios is underpinned by the ongoing monitoring and mitigation of credit risk in the portfolio to ensure that any credit events or institutional ratings changes are identified in a timely manner. Gains or losses arising in the Subsidiaries will be reflected in an increase or decrease in the amount of VFN interest receivable recognised in the Company.

The following table analyses the external ratings of the Subsidiaries' portfolio investments, calculated using all available ratings for the portfolio investments from Standard & Poor's, Moody's and Fitch.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 5. Financial risk management continued

### Credit and counterparty risk continued

Standard & Poor's rating (or equivalent)	31 March 2023 £	31 March 2022 £
BBB- to BBB+	<b>6,270,351</b>	—
BB- to BB+	—	29,472,563
B- to B+	<b>103,722,974</b>	149,609,675
CCC- to CCC+	<b>6,655,246</b>	12,051,520
Unrated	<b>1,606,824,535</b>	1,613,398,803
	<b>1,723,473,106</b>	1,804,532,561

Prior to any investment purchase, the Investment Adviser provides a credit memorandum to the Investment Manager which includes a Sequoia Credit Rating (based on an in-house rating system, which takes into account certain facets of the investment, including the issuer's security, financial statements, debt covenants and the type of debt) for the debt investment, along with a recommendation to purchase the asset. The Investment Manager vets the recommendation and liaises with the Risk Committee where appropriate.

The mitigation of credit risk starts with the Investment Adviser's Investment Committee, which monitors risks associated with potential debt investments and makes recommendations for acquisitions whilst allocating a Sequoia Credit Rating.

The Investment Adviser formally performs credit reviews of the full portfolio at least semi-annually or as and when a particular "Credit Event" occurs.

Five investments rated in the CCC band at the year end have been downgraded during the current and prior years from B or above.

The table below analyses the Company's maximum exposure to credit risk for the components of the Statement of Financial Position.

	31 March 2023 £	Restated <sup>1</sup> 31 March 2022 £
Non-derivative financial assets at fair value through profit or loss	<b>1,861,431,678</b>	1,822,486,404
Cash and cash equivalents	<b>7,363,120</b>	8,759,040
Trade and other receivables	<b>1,605,043</b>	90,628,696
Derivative financial assets at fair value through profit or loss	<b>23,254,199</b>	17,536,684
	<b>1,893,654,040</b>	1,939,410,824

1. See note 18.

In line with the Company's original Prospectus, a cash management policy has been put in place. Cash deposits will only be placed with banks that hold a short-term rating of at least A-1, P-1 or F1 from Standard & Poor's, Moody's or Fitch respectively and no more than 40% of net assets may be placed with any one bank at any time. The Investment Manager carefully manages this process, ensuring uninvested cash is dispersed to adequately rated banks whilst maximising interest received. The Bank of New York Mellon, as Custodian, holds cash in relation to the portfolio operations and in order to settle investment transactions. At the year end the Standard & Poor's short-term credit rating of Bank of New York Mellon was A-1+ (2022: A-1+).

For operational purposes, the Company's policy is to utilise banks with an investment grade rating or higher (A-3, P-3 or F3 from Standard & Poor's, Moody's or Fitch respectively). The Company's operational cash is held with The Royal Bank of Scotland International Limited ("RBSI"). During the year, the Company has used Investec Bank (Channel Islands) Limited ("IBCI"), Macquarie Bank Limited ("Macquarie"), Morgan Stanley, Nomura Bank International ("Nomura") and RBSI to undertake forward foreign exchange transactions. Hedging collateral may be held with these institutions if required.

At the year end the short-term credit ratings of these institutions were as follows (Standard & Poor's unless otherwise specified): IBCI: F2 (Fitch); Macquarie: A-1; Morgan Stanley: A-2; Nomura: A-2; and RBSI: A-1 (2022: AFEX, Global Reach and Moneycorp: no rating; IBCI: F2 (Fitch); Macquarie: A-1; Monex: B (Fitch); Morgan Stanley: A-2, Nomura: F1 (Fitch) and RBSI: A-2).

Bankruptcy or insolvency of any of the above financial institutions may cause the Company's rights with respect to the cash held to be delayed or limited. The Company monitors its risk by regularly monitoring the credit ratings of these financial institutions.

Credit risk arising on debt securities held by the Subsidiaries is constantly monitored by the Investment Manager. Credit risk is mitigated by the diversification of assets by maturity profile and jurisdiction.



The Subsidiaries' exposure to credit risk in respect of their investments, based on the country of registration, is summarised below:

	<b>31 March 2023</b> £	31 March 2022 £
United States of America/Canada	<b>862,664,055</b>	911,301,521
Europe	<b>417,575,554</b>	488,770,168
United Kingdom	<b>440,734,175</b>	315,087,310
Australia	<b>2,499,322</b>	89,373,562
<b>Subsidiaries' non-derivative financial assets at fair value through profit or loss (note 6)</b>	<b>1,723,473,106</b>	1,804,532,561

The table below summarises the Subsidiaries' portfolio concentrations:

	<b>Largest portfolio holding of a single asset % of total portfolio</b>	<b>Average portfolio holding % of total portfolio</b>
<b>31 March 2023</b>	<b>3.54%</b>	<b>1.47%</b>
	Largest portfolio holding of a single asset % of total portfolio	Average portfolio holding % of total portfolio
31 March 2022	3.59%	1.32%

The following table summarises the Subsidiaries' exposure to market risk, based on its concentration by industry:

	<b>31 March 2023</b> £	31 March 2022 £
Accommodation	<b>129,087,349</b>	91,727,585
Power	<b>313,324,510</b>	340,451,637
Renewable Energy	<b>176,947,811</b>	164,221,483
Telecommunication, Media and Technology	<b>495,604,568</b>	502,016,613
Transport	<b>113,923,580</b>	149,302,523
Transportation Equipment	<b>149,005,982</b>	198,033,196
Utilities	<b>183,790,166</b>	120,128,618
Other	<b>161,789,140</b>	238,650,906
<b>Subsidiaries' non-derivative financial assets at fair value through profit or loss (note 6)</b>	<b>1,723,473,106</b>	1,804,532,561

Activities undertaken by the Company and the Subsidiaries may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, settlement risk is mitigated by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes. The Investment Manager also conducts reviews of the settlement process and Custodian to ensure a stringent settlement process is in place.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 5. Financial risk management continued

### Liquidity risk

Liquidity risk is the risk that the Company or the Subsidiaries will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's policy and the Investment Manager's approach to managing liquidity risk in both the Company and the Subsidiaries is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company has implemented a liquidity policy that is consistent with its underlying obligations and redemption policy, in accordance with the requirements relating to quantitative and qualitative risk limits and which considers both funding and trading liquidity.

The Investment Manager manages the Company's liquidity risk by taking into account the liquidity profile and strategy of the Company and at the level of the Subsidiaries primarily through investing in a diverse portfolio of assets. Liquidity risk mitigation will be sought through careful selection of assets, asset duration, asset liquidity profiling through loan market interaction, geographical focus, currency allocations, cash management and other Company considerations.

Given the Company's permanent capital structure as a closed-ended fund, it is not exposed to redemption risk. However, the financial instruments of the Company and the Subsidiaries include derivative contracts traded over-the-counter and debt investments, which are not traded in an organised public market and which may be illiquid.

The overall liquidity risk of the Company and the Subsidiaries is monitored on a quarterly basis by the Board of Directors and on an ongoing basis by the Investment Manager. Shareholders will have no right of redemption and must rely, in part, on the existence of a liquid market in order to realise their investment.

There are no Company assets subject to special arrangements arising from their illiquid nature.

The following table details the maturity profile of the Company's financial liabilities, based on the remaining period from the year end date to the contractual maturity date.

	Less than 1 year £	Between 1 and 3 years £	Total £
<b>As at 31 March 2023</b>			
Derivative financial liabilities at fair value through profit or loss	29,697,652	1,362,670	31,060,322
Loan payable	—	181,788,862	181,788,862
Trade and other payables	62,951,554	—	4,530,899
<b>Total financial liabilities</b>	<b>92,649,206</b>	<b>183,151,532</b>	<b>217,380,083</b>
	Less than 1 year £	Between 1 and 3 years £	Total £
<b>As at 31 March 2022</b>			
Derivative financial liabilities at fair value through profit or loss	30,871,132	6,272,510	37,143,642
Loan payable	—	121,368,920	121,368,920
Trade and other payables	3,855,430	—	3,855,430
<b>Total financial liabilities</b>	<b>34,726,562</b>	<b>127,641,430</b>	<b>162,367,992</b>

### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's activities relating to financial instruments, either internally or on the part of service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Operational risk is managed so as to balance the limiting of financial losses and reputational damage with achieving the investment objective of generating returns to investors.

The Investment Manager works with the Board to identify the risks facing the Company and the Subsidiaries. The key risks are documented and updated in the Risk Matrix by the Investment Manager.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers.

The Directors' assessment of the adequacy of the controls and processes in place at service providers with respect to operational risk is carried out through having discussions with and reviewing reports from the Investment Manager, who conducts regular discussions with the service providers.

## Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives. Share buy-backs have been utilised during the year to manage the discount of share price to NAV, and the Company has introduced a scrip dividend facility to enhance share ownership where this will be accretive to NAV. No scrip dividends were issued in the current financial year. There are no duration restrictions on the investments acquired by the Subsidiaries. Target annual returns<sup>1</sup> for investors in the Company are an income return of 6% to 7% and a capital return of 1% to 2%.

The Company may employ leverage for short-term liquidity or investment purposes. During the year, the Company has maintained a revolving credit facility of £325 million (with an additional £75 million accordion facility) with a consortium of four banks led by Royal Bank of Scotland International Limited (see note 15).

## 6. Non-derivative financial assets at fair value through profit or loss

	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
Cost at the start of the year	1,863,609,180	1,796,521,620
VFNs purchased during the year	302,102,305	399,588,003
VFNs redeemed during the year	(394,522,483)	(339,810,204)
Realised gains and capitalised interest on VFNs	4,365,933	7,309,761
Cost at the end of the year	1,775,554,935	1,863,609,180
Net unrealised gains/(losses) on non-derivative financial assets at the end of the year	85,876,743	(41,122,776)
<b>Non-derivative financial assets at fair value through profit or loss at the end of the year</b>	<b>1,861,431,678</b>	<b>1,822,486,404</b>

1. See note 18.

The Company's total investment in the Subsidiaries is £1,803,011,022, comprising its equity investment in the UK Subsidiary and equity investment and holdings of VFNs in the Luxembourg Subsidiary of £1,861,431,678 as above, less interest received in advance on VFNs of £58,420,655 (see note 16) (2022: £1,910,081,540, comprising its equity investment and holdings of VFNs in the Luxembourg Subsidiary of £1,822,486,404 as above, plus interest receivable on VFNs of £87,595,136).

The following table provides a reconciliation of the financial assets at fair value through profit or loss of the Subsidiaries to the Company's financial assets at fair value through profit or loss:

	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
Subsidiaries' non-derivative financial assets at fair value through profit or loss	1,723,473,106	1,804,532,561
Subsidiaries' net current assets	137,958,572	17,953,843
<b>Company's non-derivative financial assets at fair value through profit or loss</b>	<b>1,861,431,678</b>	<b>1,822,486,404</b>

1. See note 18.

None of the Subsidiaries' non-derivative financial assets at fair value through profit or loss is subject to any special arrangements arising from their illiquid nature.

1. See Appendix for Alternative Performance Measures ("APMs").

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 6. Non-derivative financial assets at fair value through profit or loss continued

The Company's net gains on non-derivative financial assets at fair value through profit or loss in the year comprises the following:

	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
Unrealised foreign exchange gains on VFNs	98,741,649	44,119,923
Realised gains and capitalised interest on VFNs	4,365,933	7,309,761
Unrealised gain/(loss) on revaluation of the Subsidiaries	28,257,870	(19,176,630)
<b>Net gains on non-derivative financial assets at fair value through profit or loss</b>	<b>131,365,452</b>	<b>32,253,054</b>

1. See note 18.

On a look-through basis, the Fund's cumulative net losses on non-derivative financial assets at fair value through profit or loss as at 31 March 2023 comprises the following:

	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
<b>Subsidiaries</b>		
Investment income during the year	146,480,014	131,663,372
Net return on financial assets and liabilities during the year, including foreign exchange and VFN interest payable	(127,795,459)	(165,286,124)
Net other income during the year	9,573,315	14,446,122
Subsidiaries' gains/(losses) during the year	28,257,870	(19,176,630)
Subsidiaries' losses brought forward	(47,304,293)	(28,127,663)
<b>Subsidiaries' losses carried forward at the end of the year</b>	<b>(19,046,423)</b>	<b>(47,304,293)</b>
<b>Company</b>		
Unrealised foreign exchange gains/(losses) on VFNs brought forward	6,181,517	(37,938,406)
Unrealised foreign exchange gains on VFNs during the year	98,741,649	44,119,923
<b>Net gains/(losses) on non-derivative financial assets at fair value through profit or loss carried forward at the end of the year</b>	<b>85,876,743</b>	<b>(41,122,776)</b>

1. See note 18.

## Fair value measurement

IFRS 13 requires that a fair value hierarchy be established that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes “observable” requires the exercise of judgement. Observable data is considered to be market data that is readily available, regularly distributed or updated, reliable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Company’s investment in the Subsidiaries, through the acquisition of shares and the issue of VFNs, is classified within Level 3, as it is not traded and contains unobservable inputs. The Board considers that the NAVs of the Subsidiaries are representative of their fair value.

	31 March 2023			Total £
	Level 1 £	Level 2 £	Level 3 £	
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,861,431,678	1,861,431,678
Derivative financial assets at fair value through profit or loss	—	23,254,199	—	23,254,199
<b>Total</b>	—	23,254,199	1,861,431,678	1,884,685,877
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	31,060,322	—	31,060,322
<b>Total</b>	—	31,060,322	—	31,060,322

	Restated <sup>1</sup> 31 March 2022			Total £
	Level 1 £	Level 2 £	Level 3 £	
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,822,486,404	1,822,486,404
Derivative financial assets at fair value through profit or loss	—	17,536,684	—	17,536,684
<b>Total</b>	—	17,536,684	1,822,486,404	1,840,023,088
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	37,143,642	—	37,143,642
<b>Total</b>	—	37,143,642	—	37,143,642

1. See note 18.

During the year there have been no transfers between levels of the fair value hierarchy. Such transfers are recognised at the end of the reporting period in which the change has occurred.

Movements in the Company’s Level 3 financial instruments during the year were as follows:

	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
Opening balance	1,822,486,404	1,730,455,551
Purchases	302,102,305	399,588,003
Sales	(394,522,483)	(339,810,204)
Capitalised interest	4,365,933	7,309,761
Net gains on non-derivative financial assets in the year	126,999,519	24,943,293
<b>Closing balance</b>	<b>1,861,431,678</b>	1,822,486,404

1. See note 18.



# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 6. Non-derivative financial assets at fair value through profit or loss continued

### Fair value measurement continued

The investments held by the Subsidiaries in the underlying portfolios are classified within the fair value hierarchy as follows:

Assets	31 March 2023			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	—	572,871,978	1,150,601,128	1,723,473,106

Assets	31 March 2022			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	—	773,506,515	1,031,026,046	1,804,532,561

The Subsidiaries' Level 3 investment valuations are calculated by discounting future cash flows at a yield appropriate to comparable infrastructure loans or bonds (with such yield assessed primarily from publicly available sources and secondarily in consultation with brokers and syndicate desks). Spread data will also be cross-referenced to recently priced primary market transactions if possible. When identifying comparable loans or bonds, for the purpose of assessing market yields, structural and credit characteristics and project type are also considered.

The equity investments arising from the restructuring of a borrower group during the year have been fair valued principally on a discounted cash flow basis.

During the year, one investment, with a value of £34,418,529 (2022: 20 investments, with a total value of £538,351,566), was transferred from Level 3 to Level 2 of the fair value hierarchy. Such transfers are recognised at the end of the reporting period in which the change has occurred.

The following table summarises the significant unobservable inputs the Company used to value its Subsidiaries' underlying investments categorised within Level 3 at 31 March 2023. The table is not intended to be all-inclusive but instead captures the significant unobservable inputs relevant to our determination of fair values.

31 March 2023 Type	Sector	Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Private debt	Accommodation	61,847,416	Discounted cash flow	Discount rate	6.4%-10.8%
Private debt	Power	237,409,603	Discounted cash flow	Discount rate	7.4%-13.9%
Private debt	Renewable energy	139,694,814	Discounted cash flow	Discount rate	4.5%-10.2%
Private debt	TMT	370,919,838	Discounted cash flow	Discount rate	6.1%-12.0%
Private debt	Transport	43,500,298	Discounted cash flow	Discount rate	6.0%-7.6%
Private debt	Transport assets	109,925,707	Discounted cash flow	Discount rate	6.2%-18.5%
Private debt	Utilities	98,104,483	Discounted cash flow	Discount rate	4.5%-10.5%
Private equity	Utilities	34,260,599	Discounted cash flow	Discount rate	15.0%-20.0%
Private debt	Other	48,283,123	Discounted cash flow	Discount rate	11.2%-22.3%
Securitisations (ABS)	Transport assets	6,655,247	Unadjusted broker quote	N/A	N/A
		<b>1,150,602,128</b>			

31 March 2022 Type	Sector	Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Private debt	Accommodation	4,536,829	Discounted cash flow	Discount rate	7.2%-7.2%
Private debt	Power	233,183,201	Discounted cash flow	Discount rate	6.7%-12.6%
Private debt	Renewable energy	137,697,394	Discounted cash flow	Discount rate	4.0%-8.5%
Private debt	TMT	312,833,991	Discounted cash flow	Discount rate	5.4%-9.0%
Private debt	Transport	93,657,988	Discounted cash flow	Discount rate	0.0%-9.0%
Private debt	Transport assets	59,249,231	Discounted cash flow	Discount rate	5.6%-15.2%
Private debt	Utilities	43,137,892	Discounted cash flow	Discount rate	8.0%-9.5%
Private equity	Utilities	15,353,710	Discounted cash flow	Discount rate	20.0%-30.0%
Private debt	Other	109,982,544	Discounted cash flow	Discount rate	6.2%-19.3%
Securitisations (ABS)	Transport assets	21,393,265	Unadjusted broker quote	N/A	N/A
		1,031,026,046			

The following table shows the Directors' best estimate of the sensitivity of the Subsidiaries' Level 3 investments to changes in the principal unobservable input, with all other variables held constant.

Unobservable input	Possible reasonable change in input	31 March 2023 effect on net assets and profit or loss £	31 March 2022 effect on net assets and profit or loss £
Discount rate	+3%	<b>(59,410,467)</b>	(30,045,418)
	-3%	<b>63,428,685</b>	32,266,790

The possible change in the discount rate of 3% (2022: 1%) is regarded as reasonable in the context of the current inflationary environment and increases in the levels of global interest rates during the year.

## Valuation techniques for the investment portfolio of the Subsidiaries

With effect from 18 April 2017, the Company engaged PricewaterhouseCoopers LLP ("PwC") as Valuation Agent, with responsibility for reviewing the valuations applied by the Investment Adviser in relation to the acquisition of loans and bonds on a monthly basis. The principles and techniques utilised by the Investment Adviser and reviewed by PwC during the year in calculating the valuations are described below.

### Performing portfolio assets

Valuations of performing portfolio loans and bonds are based on actual market prices (bid-side prices) obtained from third-party brokers and syndicate desks if available (such brokers to be agreed with the Investment Adviser); if such prices are not available, then valuations are calculated by discounting future cash flows at a yield appropriate to comparable infrastructure loans or bonds (with such yield assessed primarily from publicly available sources and secondarily in consultation with brokers and syndicate desks). Spread data will also be cross-referenced to recently priced primary market transactions if possible.

When identifying comparable loans or bonds, for the purpose of assessing market yields, the following will be taken into account:

- project type: jurisdiction, sector, project status, transaction counterparties such as construction companies, facility management providers;
- structural characteristics: maturity and average life, seniority, secured/unsecured, amortisation profile, cash sweeps, par versus discount; and
- credit characteristics: credit ratios (e.g. equity cushion, asset cover/LTV, debt service coverage ratios or equivalent, debt/EBITDA), ratings and ratings trajectory.

In calculating the net present value of future cash flows on loans with uncertain cash flows (such as cash-sweep mechanisms), "banking base case" cash flows are used unless there is clear evidence that the market is using a valuation based upon another set of cash flows.

In the case of discount loans with step-up margins, the assumption will be that market discounts are calculated on a yield to worst basis, unless there is clear evidence that the market convention for that loan is different.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 6. Non-derivative financial assets at fair value through profit or loss continued

### Valuation techniques for the investment portfolio of the Subsidiaries continued

Performing portfolio assets continued

For variable rate loans and bonds, for the purposes of projecting cash flows, the market convention of simple compounding to the next interest payment date is used and swap rates for subsequent interest payments, unless there is clear evidence that the market convention for that loan or bond is different.

The equity investments arising from the restructuring of a borrower group during the year have been fair valued principally on a discounted cash flow basis.

### Non-performing portfolio assets

Valuations of non-performing portfolio loans and bonds are based on actual market prices obtained from third-party brokers if available, otherwise the net present value of future expected loan cash flows will be calculated, estimated on the basis of the median outcome and discount rate that reflects the market yield of distressed/defaulted loans or bonds.

In assessing the median outcome cash flows, a project/corporate model that reflects the distressed state of the project will be used in order to assess a range of potential outcomes for expected future cash flows with regard to, for example, interest or principal recoveries and timing. The Investment Adviser will work closely with the Valuation Agent and they will have access to the Investment Adviser's own model, analysis and internal valuations. These valuations are subject to a high degree of management oversight and ultimate approval by the Investment Manager.

In the opinion of the Investment Adviser, as at 31 March 2023, there were four non-performing assets in the portfolio (2022: three) with a total value of £103.9 million (2022: £86.6 million).

### Finalising the net asset value

Once the appropriate position price has been determined to be applied to each investment, the calculation of the Subsidiaries' net asset values is finalised through the following steps:

- conversion of each investment into Sterling based on month-end foreign exchange rates;
- reconciliation of any interest accrued since issue of the most recent coupon; and
- aggregation of the investments into a single Fund NAV position statement (clean and dirty price).

## 7. Derivative financial assets at fair value through profit or loss

As at 31 March 2023, the Company had the following outstanding commitments in respect of open forward foreign exchange contracts, by currency and by counterparty.

31 March 2023 Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	1,031,700,000	GBP	831,226,937	20,890,973	(23,020,732)	(2,129,759)
EUR	515,700,000	GBP	453,236,998	1,425,788	(4,154,473)	(2,728,685)
CHF	45,000,000	GBP	41,094,014	883,492	—	883,492
PLN	148,200,000	GBP	25,491,769	—	(1,622,765)	(1,622,765)
AUD	5,200,000	GBP	2,880,727	53,945	—	53,945
			1,353,930,445	23,254,198	(28,797,970)	(5,543,772)
Buying currency	Currency amount	Selling currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised losses £
USD	77,100,000	GBP	64,573,500	—	(2,262,352)	(2,262,352)
			64,573,500	—	(2,262,352)	(2,262,352)
			1,289,356,945	23,254,198	(31,060,322)	(7,806,124)

Counterparty				Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
Investec Bank				—	(2,129,229)	(2,129,229)
Macquarie				1,773,576	(7,095,562)	(5,321,986)
Morgan Stanley				8,677,123	(6,966,786)	1,710,337
Nomura				501,748	(14,401,938)	(13,900,190)
RBSI				12,301,752	(466,808)	11,834,944
				<b>23,254,199</b>	<b>(31,060,323)</b>	<b>(7,806,124)</b>

31 March 2022 Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	1,374,767,700	GBP	1,011,565,915	2,149,958	(35,119,600)	(32,969,642)
EUR	657,100,000	GBP	571,624,503	12,740,907	(1,147,537)	11,593,370
NOK	218,000,000	GBP	18,312,662	—	(612,065)	(612,065)
AUD	16,500,000	GBP	9,174,312	—	(264,440)	(264,440)
			1,610,677,392	14,890,865	(37,143,642)	(22,252,777)

Buying currency	Currency amount	Selling currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised losses £
USD	60,000,000	GBP	(43,012,294)	2,645,819	—	2,645,819
			(43,012,294)	2,645,819	—	2,645,819
			1,567,665,098	17,536,684	(37,143,642)	(19,606,958)

Counterparty	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
Global Reach	—	(1,371,023)	(1,371,023)
Investec Bank	3,614,476	(9,539,921)	(5,925,445)
Macquarie	12,483,675	(3,863,531)	8,620,144
Morgan Stanley	—	(490,671)	(490,671)
Nomura	980,010	(15,032,218)	(14,052,208)
RBSI	458,523	(6,846,278)	(6,387,755)
	17,536,684	(37,143,642)	(19,606,958)

All forward foreign exchange positions at the year end were held with Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Morgan Stanley, Nomura Bank International or the Royal Bank of Scotland International, as noted above. There are no master netting arrangements in place.

The forward foreign exchange positions at the year end have various maturity dates ranging from 18 April 2023 to 28 February 2025 (2022: 8 April 2022 to 14 December 2023).

The net losses on forward foreign exchange contracts in the year comprises both realised and unrealised (losses)/gains as follows:

	Year ended 31 March 2023 £	Year ended 31 March 2022 £
Net realised (losses)/gains on forward foreign exchange contracts during the year	<b>(108,428,936)</b>	27,651,171
Net unrealised gains/(losses) on forward foreign exchange contracts during the year	<b>11,800,834</b>	(67,583,642)
<b>Net losses on forward foreign exchange contracts during the year</b>	<b>(96,628,102)</b>	(39,932,471)

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 8. Cash and cash equivalents

	31 March 2023 £	31 March 2022 £
Cash held on call or overnight deposit accounts	<b>7,363,120</b>	8,759,040
	<b>7,363,120</b>	8,759,040

Under the terms of its forward foreign exchange trading agreements with Investec Bank (Channel Islands) Limited, Macquarie Bank Limited, Morgan Stanley, Nomura International and Royal Bank of Scotland International, the Company may be required in certain circumstances to retain balances in collateral accounts representing the applicable margin on each facility. As at 31 March 2023, £nil (2022: £185) was held in collateral accounts.

## 9. Investment income

	Year ended 31 March 2023 £	Restated <sup>1</sup> Year ended 31 March 2022 £
Investment income on financial assets at amortised cost		
Cash and cash equivalents	<b>47,240</b>	—
Investment (loss)/income on the Company's non-derivative financial assets at fair value through profit and loss	<b>(23,707,112)</b>	99,457,170
	<b>(23,659,872)</b>	99,457,170

1. See note 18.

The Company's investment income on non-derivative financial assets at fair value through profit or loss (VFN interest) is derived from its investment in VFNs issued by its Luxembourg Subsidiary, and comprises the net of the Luxembourg Subsidiary's revenue (principally interest on loans and bonds) and realised gains on investments, less expenses, realised investment losses and investment book cost impairment losses.

During the year, due in large part to year end impairments in the Luxembourg Subsidiary to the book costs of certain currently non-performing and underperforming loans, the total of the Luxembourg Subsidiary's losses, impairments and expenses has exceeded the total of its gains and revenues, and as a result the Company has recorded negative VFN interest income. It should be noted however that such book cost impairments have no effect on the Company's NAV, as all of the Subsidiaries' investments are measured at fair value.

It should also be noted that, notwithstanding the accounting loss recorded in the current year in respect of the Company's VFN interest income, the cashflows of VFN interest received by the Company during the year amounted to £122.4 million, compared to £119.5 million in the year ended 31 March 2022.

## 10. Related parties and other material contracts

### Transactions with Investment Manager and Investment Adviser

#### Investment Adviser

Sequoia Investment Management Company Limited (the "Investment Adviser") was appointed as the Investment Adviser with effect from 28 January 2015. With effect from 1 September 2018, the Investment Adviser is entitled to receive from the Company a base fee calculated as follows:

- 0.74% of the market value of the investments (excluding committed but not yet invested investments and cash) owned by the Subsidiaries up to £1 billion; plus
- 0.56% of the market value of the investments (excluding committed but not yet invested investments and cash) owned by the Subsidiaries in excess of £1 billion.

All such fees are payable quarterly. 10% of the Investment Adviser's fee is applied in subscribing for Ordinary Shares in the Company, which the Investment Adviser shall retain with a three-year rolling lock-up (such that those Ordinary Shares may not be sold or otherwise disposed of by the Investment Adviser without the prior consent of the Company before the third anniversary of the date of issue of the relevant Ordinary Shares). During the year, £1,171,029 was paid to the Investment Adviser in respect of such fees, of which £878,100 was settled by means of share-based payments.



On 10 May 2022, the Investment Adviser acquired 300,644 Ordinary Shares in the market in relation to fees payable for the quarter ended 31 March 2022.

On 21 July 2022, the Investment Adviser acquired 341,601 Ordinary Shares in the market in relation to fees payable for the quarter ended 30 June 2022.

On 20 October 2022, the Investment Adviser acquired 370,465 Ordinary Shares in the market in relation to fees payable for the quarter ended 30 September 2022.

On 20 January 2023, the Investment Adviser acquired 334,733 Ordinary Shares in the market in relation to fees payable for the quarter ended 31 December 2022.

On 19 April 2023, the Investment Adviser acquired 349,266 Ordinary Shares in the market in relation to fees payable for the quarter ended 31 March 2023.

The Investment Advisory Agreement can be terminated by either party giving not less than six months' written notice. The Investment Adviser's appointment will be automatically terminated upon termination of the Investment Manager's appointment under the Investment Management Agreement.

### Investment Manager

FundRock Management Company (Guernsey) Limited (formerly International Fund Management Limited) (the "Investment Manager") was appointed as the Investment Manager with effect from 28 January 2015. With effect from 1 December 2016, the Investment Manager was entitled to receive a management fee for AIFM services calculated as follows:

- if the Company's NAV is less than £200 million, 0.075% per annum of the value of the Company's NAV; plus
- if the Company's NAV is more than £200 million and less than £400 million, 0.05% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £400 million and less than £500 million, 0.04% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £500 million, 0.015% per annum of the Company's NAV not included above.

The fee is subject to an annualised minimum of £80,000 applied on a monthly basis and is payable monthly in arrears. With effect from 2 May 2017, the management fee was capped at £320,000 per annum, subject to an annual inflation-linked increase (with effect from 1 May 2023: £400,441; with effect from 1 May 2022: £370,779; with effect from 1 May 2021: £350,121).

The Investment Management Agreement can be terminated by either party giving not less than six months' written notice.

### Ordinary Shares held by related parties

The shareholdings of the Directors in the Company were as follows:

Name	As at 31 March 2023		As at 31 March 2022	
	Number of Ordinary Shares	Percentage of Ordinary Shares in issue	Number of Ordinary Shares	Percentage of Ordinary Shares in issue
Robert Jennings (with other members of his family)	350,000	0.02%	242,666	0.01%
Sandra Platts (in a family RATS)	27,953	0.00%	27,953	0.00%
Sarika Patel	16,000	0.00%	5,000	0.00%
Tim Drayson	207,000	0.01%	39,000	0.00%
James Stewart (with his spouse)	43,313	0.00%	—	—
Fiona Le Poidevin	—	—	N/A	N/A
Jan Pethick (with his spouse)	N/A	N/A	263,820	0.01%
Jon Bridel (held by a connected party)	N/A	N/A	30,000	0.00%

As at 31 March 2023, the Investment Adviser held an aggregate of 4,436,464 Ordinary Shares (2022: 3,089,021 Ordinary Shares), which is 0.26% (2022: 0.17%) of the issued share capital.

As at 31 March 2023, the members of the Investment Adviser's founding team held an aggregate of 792,643 Ordinary Shares (2022: 692,643 Ordinary Shares), which is 0.05% (2022: 0.04%) of the issued share capital.

As at 31 March 2023, the Investment Manager held an aggregate of 50,000 Ordinary Shares (2022: 50,000 Ordinary Shares), which is 0.00% (2022: 0.00%) of the issued share capital.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 10. Related parties and other material contracts continued

### Directors' fees

The Directors of the Company receive fees for their services as Directors. During the year, the Directors received fees of £355,877 (2022: £301,175). As at 31 March 2023, there were no Directors' fees outstanding (2022: £nil). For details of the structuring of the Directors' remuneration, please refer to the Directors' remuneration report on pages 72 and 73.

### Other material contracts

#### Administrator

With effect from 28 January 2015, Sanne Fund Services (Guernsey) Limited (formerly Praxis Fund Services Limited) (the "Administrator") was appointed as the Administrator. With effect from 1 June 2016, the Administrator is entitled to receive from the Company a base fee calculated as follows and payable monthly:

- if the Company's NAV is less than £300 million, 0.07% per annum of the value of the Company's NAV; plus
- if the Company's NAV is more than £300 million and less than £400 million, 0.05% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £400 million, 0.04% per annum of the Company's NAV not included above.

### Other material contracts

The base fee is subject to a minimum of £65,000 applied on a monthly basis and was capped at £300,000 per annum, subject to an annual inflation-linked increase (with effect from 1 May 2023: £357,673; with effect from 1 May 2022: £331,178; with effect from 1 May 2021: £312,728). The Administrator is also entitled to a fee for company secretarial services based on time costs.

The Administration Agreement can be terminated by either party giving not less than 90 days' written notice.

#### Subsidiary Administrator

With effect from 28 January 2015, TMF Luxembourg S.A. (the "Subsidiary Administrator") was appointed as the administrator of the Luxembourg Subsidiary. During the calendar year 2023, the Subsidiary Administrator will receive an estimated amount in recurring and ad hoc fees from the Luxembourg Subsidiary of €80,896 (£71,192) (2022: €85,001 per annum (£71,592) during the calendar year 2022).

#### Custodian

With effect from 27 February 2015, The Bank of New York Mellon (the "Custodian") was appointed as the Custodian. The Custodian is entitled to receive fees, as agreed from time to time, for services provided as portfolio administrator, depositary, calculating agent, account bank and custodian.

The Custodian Agreement can be terminated by either party giving not less than 60 days' written notice.

The amounts charged for the above-mentioned fees during the year ended 31 March 2023 and outstanding at 31 March 2023 are as follows:

<b>Year ended 31 March 2023</b>	<b>Charge for the year £</b>	<b>Amounts outstanding at 31 March 2023 £</b>
Investment Adviser's fees	<b>11,989,220</b>	<b>2,878,468</b>
Administration fees	<b>440,937</b>	<b>27,598</b>
Investment Manager's fees	<b>369,422</b>	<b>30,898</b>
Directors' fees and expenses	<b>366,699</b>	<b>—</b>
Sub-administration fee <sup>1</sup>	<b>109,206</b>	<b>695</b>
Fees payable to the Custodian <sup>1</sup>	<b>792,844</b>	<b>171,561</b>
	<b>14,068,328</b>	<b>3,109,220</b>

Year ended 31 March 2022	Charge for the year £	Amounts outstanding at 31 March 2022 £
Investment Adviser's fees	11,836,201	2,961,858
Administration fees	453,630	—
Investment Manager's fees	349,634	—
Directors' fees and expenses	305,202	—
Sub-administration fee <sup>1</sup>	96,791	49,013
Fees payable to the Custodian <sup>1</sup>	750,720	236,000
	13,792,178	3,246,871

1. Includes expenses of both the Company and the Subsidiaries.

### Overdraft facility

On 15 February 2016, the Company entered into an overdraft facility with the Royal Bank of Scotland International Limited with a limit of £1,500,000. As at 31 March 2023, this facility had not been utilised.

### Loan collateral

With effect from 15 November 2021, security for a revolving credit facility of £325 million (see note 15) with a consortium of banks led by the Royal Bank of Scotland International Limited was provided by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiaries held by the Company and a charge on the assets of the Subsidiaries.

## 11. Tax status

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

## 12. Share capital

The Company's Ordinary Shares and C Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares and C Shares are recognised as a deduction in equity and are charged to the relevant share capital account. The Company undertakes that it shall ensure that its records and bank accounts are operated in such a way that the assets attributable to the Ordinary Shares and the C Shares can be separately identified. On the conversion of C Shares to Ordinary Shares, C Shareholders shall be allocated an appropriate number of Ordinary Shares, calculated by reference to the conversion ratio.

The authorised share capital of the Company is represented by an unlimited number of shares of nil par value, to which the following rights are attached:

- Dividends: Ordinary Shareholders and C Shareholders are entitled to receive, and participate in, any dividends or other distributions resolved to be distributed from their respective pools of assets in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- Winding up: On a winding up, the Ordinary Shareholders and C Shareholders shall be entitled to the surplus assets remaining in their respective pools of assets after payment of creditors.
- Voting: Ordinary Shareholders have the right to receive notice of and to attend, speak and vote at general meetings of the Company and each holder being present in person or by proxy shall upon a show of hands have one vote and upon a poll one vote in respect of every Ordinary Share held. C Shareholders have no right to attend or vote at any meeting of the Company, except that the consent of C Shareholders is required for any alteration to the Memorandum or Articles of the Company; for the passing of any resolution to wind up the Company; and for the variation or abrogation of the rights attached to the C Shares.

The Company may acquire its own Ordinary Shares, up to a maximum number of 14.99% per annum of the Ordinary Shares in issue.

There were no C Shares in issue during either the current or prior years.

# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 12. Share capital continued

Issued share capital Ordinary Shares	<b>31 March 2023 Ordinary Shares Number</b>	31 March 2022 Ordinary Shares Number
Share capital at the beginning of the year	<b>1,768,238,998</b>	1,763,120,710
Share capital issued and fully paid	—	5,118,288
Share buy-backs	<b>(33,419,445)</b>	—
	<b>1,734,819,553</b>	1,768,238,998

Issued share capital Ordinary Shares	<b>31 March 2023 Ordinary Shares £</b>	31 March 2022 Ordinary Shares £
Share capital at the beginning of the year	<b>1,837,390,531</b>	1,831,856,145
Share capital issued and fully paid	—	5,534,386
Share buy-backs	<b>(28,768,020)</b>	—
	<b>1,808,622,511</b>	1,837,390,531

During the year, no Ordinary Shares have been issued to the Investment Adviser in relation to fees payable (2022: 802,196 Ordinary Shares in relation to fees payable for the period from 1 April 2021 to 31 December 2021, at an average issue price of 109.46p per Ordinary Share (see note 10)).

During the year, no Ordinary Shares were issued in respect of scrip dividends (2022: 4,316,092 Ordinary Shares totalling £4,656,286).

## 13. Basic and diluted earnings per share

	<b>Year ended 31 March 2023</b>	Year ended 31 March 2022
(Loss)/profit for the year	<b>£(17,948,654)</b>	£62,718,690
Weighted average number of Ordinary Shares	<b>1,753,877,035</b>	1,765,918,903
<b>Basic and diluted (loss)/earnings per Ordinary Share</b>	<b>(1.02)p</b>	3.55p

The weighted average number of Ordinary Shares is based on the number of Ordinary Shares in issue during the year under review, as detailed in note 12.

There were no dilutive financial instruments in issue during the years ended 31 March 2023 or 31 March 2022.

## 14. Trade and other receivables

	<b>Year ended 31 March 2023 £</b>	Restated <sup>1</sup> Year ended 31 March 2022 £
VFN interest receivable	—	87,595,136
Other receivables	—	500,000
Prepaid finance costs	<b>1,494,219</b>	2,400,865
Other prepaid expenses	<b>110,824</b>	132,695
	<b>1,605,043</b>	90,628,696

1. See note 18.

Principally as a result of the investment book cost impairment losses assessments conducted as at 31 March 2023 and 31 March 2022 (as noted in notes 9 and 18 respectively), the balance of VFN interest receivable has been extinguished during the year and has become a liability (see note 16). It should be noted that, in the books of the Company, the reduction in the VFN interest resulting from the impairment assessments is matched by an equal and opposite increase in the fair value of the Luxembourg Subsidiary (as the liability in the Luxembourg Subsidiary to pay VFN interest to the Company is reduced). As a result, there is no impact on the Company's NAV resulting from these impairment losses.

The other receivable in the prior year represented a deposit paid in respect of the Custodian's legal fees relating to the Company's investment in Bulb Energy.

## 15. Loan payable

The Company has a 36-month £325 million multi-currency revolving credit facility ("RCF") with the Royal Bank of Scotland International Limited ("RBSI") as lead arranger. The facility has an accordion facility of £75 million and matures in November 2024. The proceeds of the loan are to be used in or towards the making of investments in accordance with the Company's investment policy.

The loan imposes an interest cover test and is secured by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiaries held by the Company and a charge on the assets of the Subsidiaries. In accordance with the Company's investment policy, any borrowings undertaken by the Company will not exceed 20% of the value of the assets of the Company less its liabilities. Should the value of the underlying assets held in the Subsidiaries fall below a certain level, further margin calls may be made by RBSI, however no margin calls were made during the current or prior years.

	For the year ended 31 March 2023		
	GBP facility £	USD facility £	Total £
Balance brought forward	78,742,568	42,626,352	121,368,920
Drawdowns	81,000,000	57,712,919	138,712,919
Repayments	(80,000,000)	—	(80,000,000)
Foreign exchange revaluations	—	1,707,023	1,707,023
Balance carried forward	79,742,568	102,046,294	181,788,862

	For the year ended 31 March 2022		
	GBP facility £	USD facility £	Total £
Balance brought forward	72,300,000	11,594,203	83,894,203
Drawdowns	6,000,000	30,023,268	36,023,268
Capitalised loan interest and fees	442,568	5,039	447,607
Foreign exchange revaluations	—	1,003,842	1,003,842
Balance carried forward	78,742,568	42,626,352	121,368,920

Interest on the loan is charged at a rate of SONIA (or equivalent) plus 2.0% per annum (2022: SONIA (or equivalent) plus 2.0% per annum). The facility is sustainability-linked, with margin premium or discount of up to 0.05% linked to the ESG score of the SEQI investment portfolio as verified by an independent assurance process, with effect from 1 July 2022. The sustainability feature of the RCF underlines the Company's commitment to its long-term sustainable investment initiative. Loan interest of £8,628,893 (2022: £3,449,846) and upfront and facility fees of £905,878 (2022: upfront, facility and break fees of £1,072,676) have been charged on the loan during the year.

The carrying value of the loan is considered to be a reasonable approximation of its fair value.

## 16. Trade and other payables

	31 March 2023 £	31 March 2022 £
VFN interest received in advance	58,420,655	—
Investment Adviser's fee payable	2,878,468	2,961,858
Ordinary Share buy-backs payable	997,287	—
Loan interest payable	132,056	521,452
Other payables	523,088	372,120
Balance carried forward	62,951,554	3,855,430



# Notes to the Financial Statements continued

For the year ended 31 March 2023

## 16. Trade and other payables continued

Principally as a result of the investment book cost impairment losses assessments conducted as at 31 March 2023 and 31 March 2022 (as noted in notes 9 and 18 respectively), the balance of VFN interest receivable by the Company as at 31 March 2022 (see note 14) has been extinguished during the year and has become a liability. It should be noted that, in the books of the Company, the reduction in VFN interest receivable by the Company resulting from the impairment assessments is matched by an equal and opposite increase in the fair value of the Luxembourg Subsidiary (as the liability in the Luxembourg Subsidiary to pay VFN interest to the Company is reduced). As a result, there is no impact on the Company's NAV resulting from these impairment losses.

## 17. Commitments

As at 31 March 2023, £49.5 million (2022: £66.3 million) was committed by the Subsidiaries to new or existing investments. These commitments will be settled from the existing cash reserves of the Company and the Subsidiaries and through drawdowns from the Company's revolving credit facility.

## 18. Prior year restatement

Certain prior year figures, as included in the table below, have been restated in these Financial Statements to reflect the effects of the 31 March 2022 annual impairment assessment exercise conducted on the portfolio of investments held within the Luxembourg Subsidiary. This exercise was not completed until after the Company had signed its 31 March 2022 Annual Financial Statements, as a result of which the adjustments to the book costs of the affected investments, and the resulting reduction in the VFN interest expense recorded in the books of the Luxembourg Subsidiary, were not reflected in those Financial Statements. In order to fully align these Financial Statements with those of the Luxembourg Subsidiary, the 31 March 2023 annual impairment assessment exercise has been completed and the corresponding adjustments made to these Financial Statements, and therefore the prior year Financial Statements have also been adjusted to ensure that current and prior year figures are reported on the same basis. The result is a reclassification in the prior year between VFN interest receivable from the Luxembourg Subsidiary and the valuation of the Company's equity holding in the Luxembourg Subsidiary. There is no change in the Company's NAV as a result of the reclassification. No third balance sheet is required, as the adjustment in the Statement of Financial Position at the beginning of the preceding period is not material.

The impact on the Statement of Comprehensive Income and the Statement of Financial Position is shown in the table below:

	31 March 2022 £	Reclassification £	31 March 2022 (restated) £
<b>Statement of Comprehensive Income</b>			
Net gains/(losses) on non-derivative financial assets at fair value through profit or loss	(27,520,112)	52,463,405	24,943,293
Investment income	151,920,575	(52,463,405)	99,457,170
Total comprehensive income	124,400,463	—	124,400,463
<b>Statement of Financial Position</b>			
<b>Current assets</b>			
Trade and other receivables	143,092,101	(52,463,405)	90,628,696
<b>Non-current assets</b>			
Non-derivative financial assets at fair value through profit or loss	1,770,022,999	52,463,405	1,822,486,404

## 19. Subsequent events

There have been no significant events since the year end which would require revision of the figures or disclosures in the Financial Statements.

# Officers and advisers

## Directors

Robert Jennings, CBE (Independent non-executive Chair)

Sandra Platts (Senior Independent non-executive Director)

Sarika Patel (Independent non-executive Director)

Tim Drayson (Independent non-executive Director)

James Stewart (Independent non-executive Director)

Fiona Le Poidevin (Independent non-executive Director)

## Registered Office

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

## Investment Adviser

### Sequoia Investment Management Company Limited

Kent House, 6th Floor  
14-17 Market Place  
London W1W 8AJ

## Independent Auditor

### Grant Thornton Limited

St James Place  
St James Street  
St Peter Port  
Guernsey GY1 2NZ

## Broker

### Jefferies International Limited

100 Bishopsgate  
London EC2N 4JL

## Legal Adviser (as to Guernsey Law)

### Mourant

Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 4HP

## Valuation Agent

### PricewaterhouseCoopers LLP

7 More London Riverside  
London SE1 2RT

## Registrar

### Computershare Investor Services (Guernsey) Limited

1st Floor Tudor House  
Le Bordage  
St Peter Port  
Guernsey GY1 1DB

## Custodian

### Bank of New York Mellon

1 Canada Square  
London E14 5AL

## Investment Manager

### FundRock Management Company (Guernsey) Limited

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

## Administrator

### Sanne Fund Services (Guernsey) Limited

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

## Subsidiary Administrator

### TMF Luxembourg S.A.

46A, Avenue JF Kennedy  
L-1855 Luxembourg

## Legal Adviser (as to UK Law)

### Cameron McKenna Nabarro Olswang LLP

78 Cannon Street  
London EC4N 6AF

## Communications Adviser

### Teneo

85 Fleet Street  
London EC4Y 1AE

## Independent Consultants

Kate Thurman  
Andrea Finegan

# Officers and advisers continued

## Disclosure of directorships in public companies listed on recognised stock exchanges

The Directors who held office during the year have held the following directorships in other public companies during the year:

Company name	Stock exchange
<b>Robert Jennings, CBE</b>	
None	
<b>Sandra Platts</b>	
Taylor Maritime Investments Limited	London Stock Exchange – Main Market
Marble Point Loan Financing Limited	London Stock Exchange – SFS
<b>Sarika Patel</b>	
abrdrn Equity Income Trust plc	London Stock Exchange – Main Market
Foresight Sustainable Forestry Company plc	London Stock Exchange – Main Market
SDCL Energy Efficiency Income Trust plc	London Stock Exchange – Main Market
<b>Tim Drayson</b>	
None	
<b>James Stewart</b>	
None	
<b>Fiona Le Poidevin (appointed 1 January 2023)</b>	
ICG-Longbow Senior Secured UK Property Debt Investments Limited	London Stock Exchange – Main Market
Doric Nimrod Air One Limited (resigned 13 February 2023)	London Stock Exchange – SFS
Doric Nimrod Air Two Limited	London Stock Exchange – SFS
Doric Nimrod Air Three Limited	London Stock Exchange – SFS
<b>Jon Bridel (retired 3 August 2022)</b>	
DP Aircraft 1 Limited	London Stock Exchange – SFS
Fair Oaks Income Limited	London Stock Exchange – SFS
SME Credit Realisation Fund Limited (in wind-down)	London Stock Exchange – Main Market
The Renewables Infrastructure Group Limited (resigned 27 May 2022)	London Stock Exchange – Main Market
<b>Jan Pethick (retired 3 August 2022)</b>	
None	

# Appendix

## Alternative Performance Measures

### Alternative Performance Measures used in the Annual Report

#### NAV per Ordinary Share

NAV per Ordinary Share is a calculation of the Company's NAV divided by the number of Ordinary Shares in issue and provides a measure of the value of each Ordinary Share in issue.

	31 March 2023	31 March 2022
NAV	<b>£1,617,853,302</b>	£1,777,042,832
Number of Ordinary Shares in issue	<b>1,734,819,553</b>	1,768,238,998
NAV per Ordinary Share	<b>93.26p</b>	100.50p

#### Ordinary Share (discount)/premium to NAV

Ordinary Share (discount)/premium to NAV is the amount by which the Ordinary Share price is lower/higher than the NAV per Ordinary Share, expressed as a percentage of the NAV per Ordinary Share, and provides a measure of the Company's share price relative to the NAV.

	31 March 2023	31 March 2022
NAV per Ordinary Share	<b>93.26p</b>	100.50p
Closing Ordinary Shares price	<b>80.40p</b>	102.80p
Ordinary Share (discount)/premium	<b>(13.8)%</b>	2.3%

#### Total NAV/share price return

Total NAV return/total share price return are calculations showing how the NAV/share price per share has performed over a period of time, taking into account dividends paid to Shareholders. It is calculated on the assumption that dividends are reinvested at the prevailing NAV/share price on the last day of the month that the shares first trade ex-dividend. This provides a useful measure to allow Shareholders to compare performances between investment funds where the dividend paid may differ.

	Year ended 31 March 2023	
	Total NAV return	Total share price return
Opening NAV/share price per share	<b>100.50p</b>	<b>102.80p</b>
Closing NAV/share price per share	(a) <b>93.26p</b>	<b>80.40p</b>
Dividends paid during the year	(b) <b>6.40625p</b>	<b>6.40625p</b>
Weighted average NAV/share price per share on month-end ex-dividend	(c) <b>93.63p</b>	<b>87.50p</b>
Dividend adjustment factor (d = b/c +1)	(d) <b>1.0684</b>	<b>1.0732</b>
Adjusted closing NAV/share price per share (e = a x d)	(e) <b>99.64p</b>	<b>86.29p</b>
<b>Total NAV/share price return</b>	<b>(0.9)%</b>	<b>(16.1)%</b>

	Year ended 31 March 2022	
	Total NAV return	Total share price return
Opening NAV/share price per share	103.18p	104.20p
Closing NAV/share price per share	(a) 100.50p	102.80p
Dividends paid during the year	(b) 6.25p	6.25p
Weighted average NAV/share price per share on month-end ex-dividend	(c) 100.47p	105.64p
Dividend adjustment factor (d = b/c +1)	(d) 1.0622	1.0592
Adjusted closing NAV/share price per share (e = a x d)	(e) 106.75p	108.88p
<b>Total NAV/share price return</b>	3.5%	4.5%

# Appendix continued

## Alternative Performance Measures

### Cash dividend cover

Cash dividend cover is the ratio of operating cash flow divided by its total dividend payments, and is used as a measure of the extent to which a company is able to generate sufficient cash flow to pay its dividends.

The dividend cash cover calculation reflects the cash movements of the entire Fund, including the Subsidiaries, and will therefore not reconcile to figures stated in the Company's Statement of Cash Flows on page 91.

Item	Year ended 31 March 2023 Amount (£m)	Year ended 31 March 2022 Amount (£m)
Cash interest received	152.42	112.02
Consent fees received in cash	1.45	1.19
Prepayment fees	1.17	4.47
Upfront fees/discounts amortised	9.99	15.43
Cash expenses	(29.17)	(21.04)
<b>Net cash income</b>	<b>135.85</b>	112.07
Dividends paid	112.47	105.68
<b>Dividend cash cover</b>	<b>1.21x</b>	1.06x

### Portfolio yield-to-maturity/Gross portfolio return

The yield-to-maturity of an individual debt instrument is calculated using a formula involving its annual interest pay-out, face value, current price and number of years to maturity. Portfolio yield-to-maturity is the weighted average of these yields-to-maturity, or total annualised returns, in a portfolio of interest-bearing investments, discounted for the time value of money and based on the assumption that the investments are held to their maturity. This provides a useful measure of likely projected returns on a portfolio. This measure is applied in this Annual Report to the portfolio of investments held in the Subsidiaries.

### Construction risk

Construction risk is the proportion by value of investments held in a portfolio that relate to construction projects. This provides a useful measure of the degree of exposure of the Fund to the increased risk associated with lending to projects that are pre-operational. This measure is applied in this Annual Report to the portfolio of investments held in the Subsidiaries.

	31 March 2023	31 March 2022
Investments exposed to construction risk	£243,949,792	£248,618,137
Total investments held in the Subsidiaries	£1,723,473,106	£1,804,532,561
<b>Construction risk</b>	<b>14.2%</b>	13.8%

### Average equity cushion

An equity cushion exists in relation to a debt investment if there is collateral within the borrower available to the lender that exceeds the amount of the outstanding debt. The average equity cushion percentage of the portfolio of investments held in the Subsidiaries is the percentage of the total excess borrower collateral available divided by the total outstanding portfolio debt. This is a useful quantification of the degree of security available to the Fund in case of default by borrowers.

	31 March 2023	31 March 2022
Total excess borrower collateral available	£588,230,343	£587,288,287
Total investments held in the Subsidiary	£1,723,473,106	£1,804,532,561
<b>Equity cushion</b>	<b>34%</b>	33%

### Modified duration

The modified duration of a debt instrument provides a useful measure of the sensitivity of the debt instrument's value to changes in interest rates, and is calculated by dividing the instrument's price by the change in the instrument's yield caused by a 1% change in interest rates. This measure is applied in this Annual Report to the portfolio of investments held in the Subsidiaries. The modified duration of the portfolio of 1.5 (2022: 2.1) indicates that a 1% increase in interest rates would cause the value of the portfolio to fall by 1.5% (2022: 2.1%).



## Ongoing charges ratio (“OCR”)

The ongoing charges ratio of an investment company is the annual percentage reduction in Shareholder returns as a result of recurring operational expenditure. Ongoing charges are classified as those expenses which are likely to recur in the foreseeable future, and which relate to the operation of the Company, excluding investment transaction costs, financing charges and gains or losses on investments. The OCR is calculated as the total ongoing charges for a period divided by the average net asset value over that period.

	Year ended 31 March 2023		
	The Company £	The Subsidiary £	Total £
Total expenses	<b>27,513,025</b>	<b>865,592</b>	<b>28,378,617</b>
Non-recurring expenses	<b>(12,424,679)</b>	<b>—</b>	<b>(12,424,679)</b>
Total ongoing expenses	<b>15,088,346</b>	<b>865,592</b>	<b>15,953,938</b>
Average NAV			<b>1,663,768,852</b>
Ongoing charges ratio (using AIC methodology)			<b>0.96%</b>

	Year ended 31 March 2022		
	The Company £	The Subsidiary £	Total £
Total expenses	20,725,720	903,240	21,628,960
Non-recurring expenses	(5,977,811)	—	(5,977,812)
Total ongoing expenses	14,747,909	903,240	15,651,149
Average NAV			1,795,666,866
Ongoing charges ratio (using AIC methodology)			0.87%

# Annex I: SFDR Periodic Disclosure

## Sustainable investment

means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

**Product name:** Sequoia Economic Infrastructure Fund

**Legal entity identifier:** 2138006OW12FQHJ6PX91

## Environmental and/or social characteristics

**Did this financial product have a sustainable investment objective?**

Yes  No

<input type="checkbox"/> It made sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul>	<input type="checkbox"/> It promoted Environmental/Social (E/S) characteristics and while it did not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with a social objective</li> </ul>
<input type="checkbox"/> It made sustainable investments with a social objective: ___%	<input checked="" type="checkbox"/> It promoted E/S characteristics, but did not make any sustainable investments



## To what extent were the environmental and/or social characteristics promoted by this financial product met?

The Sequoia Economic Infrastructure Fund ("SEQI", the "Fund") incorporates the three following criteria in the selection of underlying assets for its portfolio:

1. Negative Screening
2. Thematic Investing (Positive Screening)
3. ESG Scoring

Deriving from the above criteria, the Fund seeks to promote ESG characteristics, with a focus on environmental, by applying the following:

1. excluding certain positions determined to cause negative or adverse environmental impact based on negative screening;
2. assessing the underlying asset's capability to contribute towards determined positive ESG themes; and
3. making investment decisions that can increase the portfolio's overall weighted average ESG score.

The Fund's investment policy precludes investing in companies with a very low E score (<1), irrespective of the overall ESG score.

The ESG principles are applied to the portfolio in order to meet our three ESG Goals:

### 1. Strictly comply with negative screening criteria

The Fund's investment policy excludes the following asset types or sub-sectors:

- Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities and facilities involved in tar sands\*
  - Infrastructure related to mining thermal coal
  - Electricity generation from coal
  - Military infrastructure, such as military housing
  - Alcohol, gambling, tobacco and pornography
1. Please note that midstream assets involving the transportation, storage and wholesale marketing of crude oil and gas such as pipelines are not automatically excluded but are subject to the ESG scoring criteria as set out below in (3).

### 2. Progress thematic investing (positive screening)

Currently, SEQI has three ESG investment themes. Positive screening will be employed to increase the Fund's exposure to these investment themes, subject to existing concentration limits.

- Renewable energy, such as solar, wind and geothermal generation, and directly related businesses including renewable energy suppliers.
- Enabling the transition to a lower carbon world, such as grid stabilization, electric vehicles, traffic congestion reduction and the substitution of coal for gas.
- Infrastructure with social benefits, which provides for basic human needs (such as clean water and food security) or brings a positive change by addressing social challenges and inequalities (such as healthcare, education, and affordable housing) or by advancing society as a whole (such as progressing telecommunications).

### 3. Over time, increase portfolio weighted average ESG score

Investment decisions follow the Fund's proprietary ESG scoring methodology ("ESG Scorecard") which measures the ESG characteristics of every investment, with a particular weighting towards environmental indicators.

Following an assessment, a score is assigned to every investment, with regular subsequent monitoring of ESG performance and credentials and a semi-annual review of the score. The ESG Scorecard is used to measure various sustainability metrics for each investment, including:

- Environment indicators and modifiers, such as: exposure to particular sectors and sub-sectors (e.g. as solar, wind, hydro, energy transition assets, biofuels, aircrafts, nuclear energy generation), air pollution, water pollution;
- Social indicators, such as: job creation in socially deprived areas, paying living wage, and engagement with local communities; and
- Governance indicators, such as: independent board members, effective diversity policies, independent oversight.

The ESG Scorecard enables the Fund to allocate capital between projects and to measure its progress over time quantitatively. SEQI's proprietary ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the "direction of travel". For example, a business that currently contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution; the timeframe of such initiatives and amount being invested is judged on a materiality basis specific to the company.

# Annex I: SFDR Periodic Disclosure

continued

The methodology blends the environmental, social, and governance (“E”, “S” and “G”) components without allowing strength in one area to offset entirely weakness in another. For example, a polluting company will be allocated a poor score, even if it has excellent social and governance policies. Moreover, the Fund’s policy is not to lend to companies with a very low E score, of less than one, regardless of the overall ESG score.

Note that the ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower’s credit rating (for example, weak corporate governance has a negative contribution to credit quality) but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile, and vice versa. The risk of climate litigation and/or state sanctions would be considered in the credit rating and/or ESG scoring processes if this is a material risk to the company.

Applying the ESG Scorecard throughout the investment process, the Fund will prioritise transactions with higher ESG scores. When considering the potential disposal of investments, SEQI will prioritise transactions with lower ESG scores, whilst taking disposal decisions based on financial metrics. By investing in higher scoring opportunities, and disposing of lower-scoring opportunities, the aim is to improve the ESG score of our loan book over time. Albeit there will naturally be fluctuations in the portfolio ESG score over time rather than a monotonically increasing ESG score. Given that certain aspects of the average ESG score of a portfolio may rest on external factors, such as unexpected early repayments, if on any given year the average ESG score does not increase year-over-year, an explanation will be provided.

SEQI’s approach to ESG is maintained on a continuous basis from pre-acquisition stage, through engagement with borrowers to assess their continued performance. The Investment Adviser may require borrowers to include particular ESG-related KPIs in the loan documentation to meet determined targets and to report on these periodically. As part of the investment process, and in line with the ESG Scorecard, the Investment Adviser puts an emphasis on the demonstration of strong governance during the due diligence process.

## ESG Scorecard

The “raw” ESG score,  $\epsilon$ , is equal to the sum of the following items:

1. A score of 1-5 representing the environmental impact of the sector and sub-sector the business is in (the “E score”).
2. A modifier of between +0.5 and -0.5 reflecting the borrower’s positioning and direction of travel within its sector and sub-sector, relative to its peers (the “E modifier”). (For example, a ferry operating on bio-fuels would receive credit versus one operating on conventional fuels.)
3. A modifier of between +1 and -1 reflecting the borrower’s corporate governance (the “G score”).
4. A modifier of between +1 and -1 reflecting the borrower’s social impact (the “S score”).

Modifications to the E score, item (2) above, must be evidenced based and capable of independent verification.

The total of items (3) and (4) will be capped at +1.

$\epsilon$  can range between -1.5 and 6.5. The ESG score is presented as a number from 0 to 100 by using the following formula:

ESG score =  $12.5(\epsilon+1.5)$

## Illustrative table of E scores

Sub-sector	Score
Solar, wind, hydro, geothermal	
Energy transition assets (other than standby generators using hydrocarbons, which score 4)	
Waste-to-energy (other than woodchip, which scores 4)	5
Rail, rolling stock, light rail	
Water utilities, de-salination plants	
Biofuels	
Energy efficiency	
Plus any sub-sector below which is leading in environmental criteria	4
Equipment manufacturing (other than renewable energy equipment, which scores 5)	
Logistics facilities	
Ferries	
Electricity distribution and transmission	
Electricity and gas supply businesses (other than supply businesses selling exclusively renewable electricity, which score 1)	
TMT infrastructure	
Student accommodation and education infrastructure	
Healthcare assets	
Agricultural infrastructure (being infrastructure assets or projects predominantly involved in farming or the production, storage, transportation or extraction of materials used in, or produced by, farming – other than biofuels, which score 2)	3
Aircraft leasing, airports and airport services	
Ship leasing (other than vessels used in offshore wind, which score 3)	
Ports (other than those involved in the transportation of thermal coal, which score 1)	
Midstream assets (other than oil pipelines and refineries, which score 1)	
Electricity generation (including PPAs) from gas	
Roads, service stations, car parking	2
Electricity generation (including PPAs) from nuclear	
Landfill (although gas or electricity generation from pre-existing landfill sites will score 3)	1

Note: for businesses active in more than one sector (e.g. diversified utilities) the sub-sector with the largest EBITDA contribution is used.



# Annex I: SFDR Periodic Disclosure

continued

## Table of E modifiers

	Score impact
Full environmental due diligence showing no material issues	0.1
Infrastructure has indirect result of reducing pollution	Up to 0.5
Fully funded environmental remediation plan	Up to 0.5
Effective water and waste management plan	0.1
Effective biodiversity management plan	0.1
Use of farmland or natural buffers; visual impact of the project	-0.1 to 0.0
Project's air pollution profile, relative to its peers	-0.25 to 0.25
Ditto water pollution	-0.25 to 0.25
Ditto noise pollution	-0.1 to 0.1
Ditto light pollution	-0.1 to 0.1
Project's contribution to climate change, relative to its peers	-0.25 to 0.25
Efficient use of materials and/or commitment to recycling, relative to its peers	-0.25 to 0.25
Others at the discretion of the Investment Committee	-0.25 to 0.25

Note: the sum of the E modifiers cannot be more than +0.5 or less than -0.5.

## Table of G scores

	Score impact
Internal audit function or external audit not part of annual audit	0.1
Independent board members; independent oversight counsel	0.1 to 0.2
Effective policies for board and senior management diversity	0.1
Effective whistle-blower policy	0.1
Others at the discretion of the Investment Committee	-0.5 to 0.5

Note: the sum of G scores cannot be more than 1 or less than -1.

## Table of S scores

	Score impact
Job creation in socially deprived areas	Up to 0.5
Effective consultation mechanisms with local populations	0.1
Mechanism for complaints for local populations	0.1
Providing public amenity at low cost/subsidised cost for deprived social groups	Up to 0.2
Significant local opposition	-0.3 to -0.1
Living wage or similar policies	0.1
Preservation of historical or cultural elements	-0.4 to 0.1
Health and safety policies and procedures	-0.5 to 0
Others at the discretion of the Investment Committee	-0.5 to 0.5

Note: the sum of S scores cannot be more than 1 or less than -1; please refer to ESG Scoring and Evidence Procedures, 11 July 2022 (SEI fund website).

**Sustainability indicators**

measure how the environmental or social characteristics promoted by the financial product are attained.

**How did the sustainability indicators perform?**

The Fund's ESG principles were applied to 100% of the portfolio for this period. As at 31 March 2023, thematic investing covers 72% of SEQI's investment portfolio. As at 31 March 2023, the average weighted ESG score for the SEQI portfolio was 62.29.

**...and compared to previous periods?**

This is the first periodic disclosure for the product, however:

During the financial year ending 2021, the Fund started the disposal of, or in some cases natural repayment of, its loans to borrowers in sectors that were not permitted under the negative screening criteria. This process continued through FY 2022. By 31 March 2022, the Fund reached full compliance with the negative screening criteria and thus successful application of its ESG principles to 100% of the portfolio.

The portion of the portfolio covered by thematic investing at 31 March each year has consistently increased: 59% (2021), 61% (2022).

The average weighted ESG score for the SEQI portfolio measured at 31 March each year has consistently increased: 59.61 (2020), 60.59 (2021), 61.88 (2022).

Performance along these sustainability indicators does not align necessarily with a guaranteed year-on-year increase in the ratio of investments in the Fund that promote ESG characteristics.

**What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?**

Sequoia Economic Infrastructure Fund does not commit to make 'sustainable investments' within the definition of Article 2(17) of Regulation (EU) 2019/2088 (SFDR) or the definition set out by the EU Taxonomy.

The nature of the Fund's investment in debt means that there are certain factors that are outside our control, such as the timing and amount of actual repayments by borrowers and the risk-reward profiles of available opportunities. This means that any commitment to make 'sustainable investments' is in part affected by external factors. Further, we recognise the regulation is undergoing continued evolution. As such, we do not seek to make such commitments to making 'sustainable investments' at this present time.

**How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**

Sequoia Economic Infrastructure Fund does not commit to make 'sustainable investments' within the definition of Article 2(17) of Regulation (EU) 2019/2088 (SFDR) or the definition set out by the EU Taxonomy.

In any event, the Fund does apply negative screening and the ESG Scorecard to all investments. As noted above, the methodology blends the "E", "S" and "G" components without allowing strength in one area to offset entirely weakness in another. For example, a polluting company will always get a poor score, even if it has excellent social and governance policies. Moreover, the Fund's policy is not to lend to companies with a very low E score, of less than one, regardless of the overall ESG score.

# Annex I: SFDR Periodic Disclosure

continued

How were the indicators for adverse impacts on sustainability factors taken into account?

Principal adverse impacts (PAIs) on sustainability factors have not been taken into account for this financial product.

The Fund is not subject to mandatory consideration and disclosure of principal adverse impacts under Article 4(1)(a) of SFDR. Nonetheless, the Fund recognises the importance of considering PAIs and shall take reasonable steps to measure PAIs in future reporting cycles. The ability to measure and thus consider the adverse impacts is highly dependent on the availability and accuracy of data. We request relevant data from our investee companies upon origination and annually thereafter and embed covenants into loans where possible to mandate the provision of certain datapoints. However, we invest predominantly in private debt with a skew towards smaller and mid-sized companies and a sizeable proportion of the portfolio is US-based. Given the asset class and nature of our investments, the collection and reporting of PAI data at our investee companies is sparse due to, namely, lack of resources and the non-regulated, voluntary nature of this exercise. Furthermore, the disclosure of PAI factors is further impaired by the lack of a yet reliable, universal benchmarks, or external data sources that could be used to reliably generate estimates of PAI data specific to the portfolio.

Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

The UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises have not been formally embedded into the Fund's investment process, but the negative screening and ESG Scorecards should have gone some way in excluding companies that might be in breach of international norms described in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The Fund ensured that all companies are compliant with minimum human rights and labor standards.

## How did this financial product consider principal adverse impacts on sustainability factors?

The Sequoia Economic Infrastructure Fund ("SEQI", "the Fund") does not consider the principal adverse impacts (PAIs) of its investment on sustainability factors.

SEQI does not commit to make 'sustainable investments' per the definition of Article 2(17) of Regulation (EU) 2019/2088 (SFDR) and, as such, does not calculate or report the principal adverse impact (PAI) indicators for the Fund.

Nonetheless, the Fund recognises the importance of considering PAIs and is taking reasonable steps on making progress in the measurement of these metrics at the fund level. The Fund's ability to measure and thus consider the adverse impacts is highly dependent on the availability and accuracy of data. We request relevant data from our investee companies upon origination and annually thereafter and embed covenants into loans, where possible, to mandate the provision of certain datapoints.

However, we invest predominantly in private debt with a skew towards smaller and mid-sized companies and a sizeable proportion of the portfolio is US-based. Given the asset class and nature of our investments, the collection and reporting of PAI data at our investee companies are limited.

The integration of PAIs is further impaired by the current absence of reliable benchmarks or external data sources that could be used to reliably generate estimated data specific to our portfolio to comply with the PAI technical reporting requirements



### Principal adverse impacts

are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

We cannot yet commit to a date by which we will be able to adequately consider such PAIs.

It should be noted that, the Fund's Investment Adviser, Sequoia Investment Management Company, signed up to the UN PRI in May 2019. This proponent promotes six high-level principles, which are fully incorporated into the Fund's investment processes and decisions.



The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 1 April 2022 to 31 March 2023

### What were the top investments of this financial product?

Largest investments	Sector	% assets	Country
1	Accommodation	3.49	UK
2	TMT	3.37	US
3	TMT	3.26	US
4	Renewables	3.11	US
5	Power	2.99	US
6	TMT	2.96	US
7	Other	2.96	US
8	Transport assets	2.83	Spain
9	Renewables	2.81	UK
10	TMT	2.78	UK
11	Utility	2.57	US
12	Transport	2.57	US
13	TMT	2.50	US
14	Accommodation	2.50	UK
15	Power	2.48	Germany



### What was the proportion of sustainability-related investments?

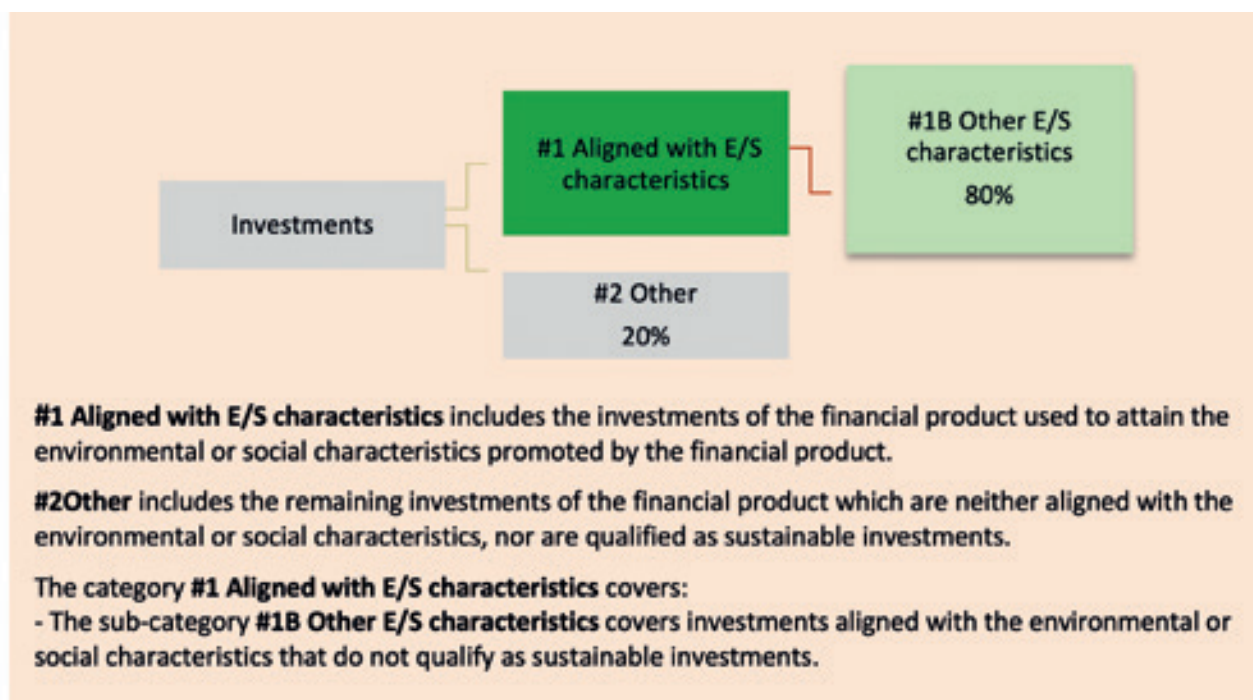
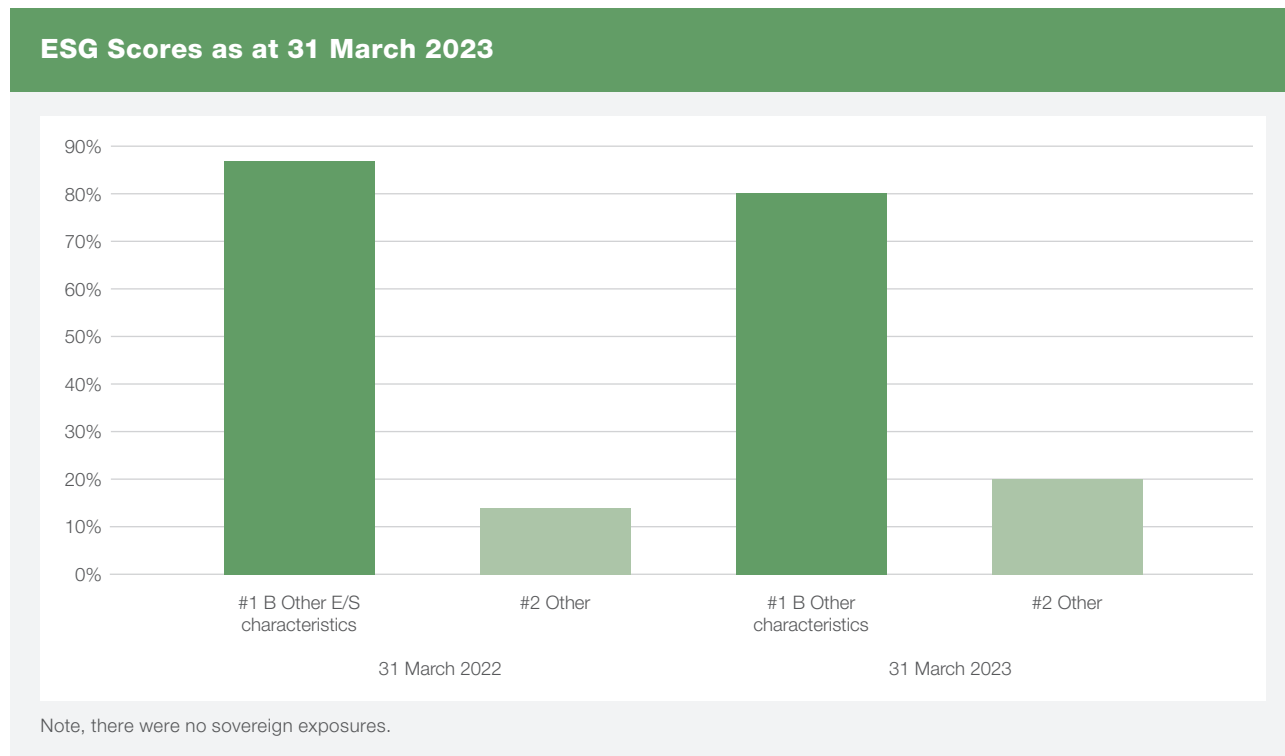
Sequoia Economic Infrastructure Fund does not commit to a minimum proportion of investments of the financial product used to meet environmental or social characteristics promoted by the Fund in accordance with the binding elements of the investment strategy. Whilst 100% of assets will undergo the ESG process described in its ESG Policy, SEQI considers the investments that fall in the lowest quartile of the portfolio's ESG scores not to be aligned with the promotion of environmental characteristics. As of 31 March 2023, this equated to 20% of the NAV and sits in "#2 Other". In pursuit of our goal to raise the average ESG score of our portfolio, the lowest ESG scored positions will be looked to as a priority when considering disposals, whilst taking disposal decisions based on financial metrics. The remaining 80% of NAV is considered as "#1B Other E/S characteristics". These investments are not used for hedging or ancillary liquidity purposes. We lack sufficient data to ensure compliance with minimum safeguards, as further described below.

External controls were applied to monitor the environmental characteristics of the Fund. For the third year, the Fund engaged an external auditor (KPMG) to provide independent limited assurance under ISAE (UK) 3000 on the ESG scores for the SEQI portfolio.

# Annex I: SFDR Periodic Disclosure

continued

This is the first periodic disclosure for the product, however the proportion of NAV that sits in “#1B Other E/S characteristics” and “#2 Other” as at 31 March 2023 and 31 March 2022 is represented in the bar chart below:





**Asset allocation** describes the share of investments in specific assets.

## What was the asset allocation?

The Fund invests in economic infrastructure private loans and bonds across a range of industries in stable, low-risk jurisdictions, creating equity-like returns with the protections of debt. It is the only UK-listed fund investing exclusively in economic infrastructure debt.

## In which economic sectors were the investments made?

Sector		Sub-sector	
Accommodation	6.79%	Healthcare	5.98%
		Residential infra	0.29%
		Student housing	0.52%
Other	10.42%	Agricultural infra	0.64%
		Hospitality	2.48%
		Private schools	2.26%
		Refinery	0.37%
		Residential infra	4.57%
Power	18.45%	Smart metering	0.09%
		Base load	7.59%
		Energy efficiency	2.06%
		Energy transition	8.12%
Renewables	9.61%	PPA	0.68%
		Hydro	0.95%
		Landfill gas	2.81%
TMT	26.54%	Solar and wind	5.86%
		Broadband	7.06%
		Data centres	10.92%
		Satellite services	0.28%
		Telecom infra services	1.36%
Transport	7.59%	Telecom towers	6.63%
		Undersea cable	0.29%
		Ferries	2.44%
		Port	2.35%
Transport assets	11.10%	Rail	2.57%
		Road	0.24%
		Aircraft	1.17%
Utility	9.49%	Rolling stock	3.15%
		Specialist shipping	6.79%
		Electricity supply	1.21%
		Midstream	6.64%
		Utility services	1.64%

During the reference period, the Fund made seven investments across three companies which derive revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels. This averaged at 7% of the portfolio over the year.

# Annex I: SFDR Periodic Disclosure

continued



## To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

Sequoia Economic Infrastructure Fund does not commit to a minimum share of “sustainable investments” with an environmental objective aligned with the EU Taxonomy.

Taxonomy-aligned activities are expressed as a share of:

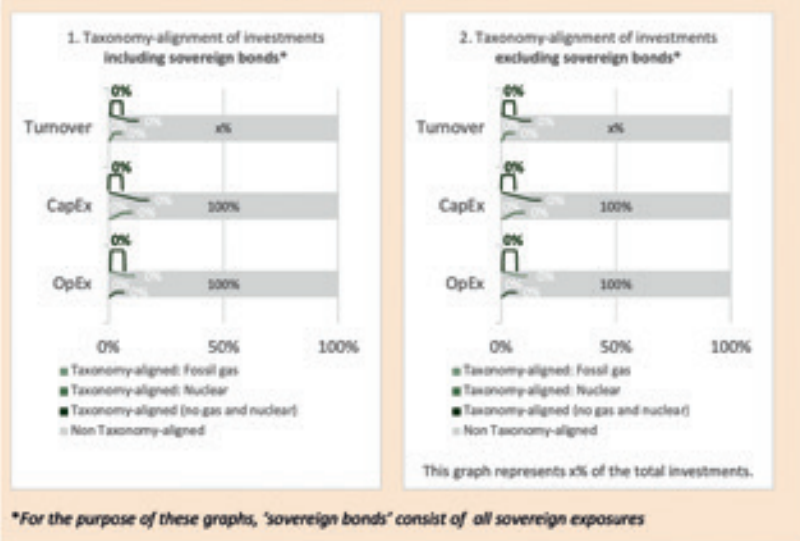
- **Turnover** reflects the “greenness” of investee companies today.
- **Capital expenditure** (“CapEx”) shows the green investments made by investee companies, relevant for a transition to a green economy.
- **Operational expenditure** (“OpEx”) reflects the green operational activities of investee companies.

## Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy?

- Yes:
- In fossil gas
  - In nuclear energy
- No

Whilst the financial products makes investments related to fossil gas and nuclear energy, Sequoia Economic Infrastructure Fund does not measure or track investments in activities that comply with the EU Taxonomy.

The graphs below show in green the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



1. Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do no significant harm to any EU Taxonomy objective – see explanatory note in the left-hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities are economic activities** for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels corresponding to the best performance.



are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under Regulation (EU) 2020/852.

### What was the share of investments made in transitional and enabling activities?

Sequoia Economic Infrastructure Fund does not measure its share investments in “transitional” and “enabling” activities as per the definition under the EU Taxonomy nor does it measure or track this.

### How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?

N/A

### What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?

Sequoia Economic Infrastructure Fund does not commit to a minimum share of “sustainable investments” with an environmental objective that are not aligned with the EU Taxonomy.

### What was the share of socially sustainable investments?

Sequoia Economic Infrastructure Fund does not commit to a minimum share of “socially sustainable investments”.

### What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?

The “#2 Other” investments includes the lowest quartile of ESG scores, which represented 20% of the SEQI portfolio by NAV as at 31 March 2023. The Fund aims to increase the portfolio’s average ESG score over time, whilst anticipating natural fluctuations. The sub-25% proportion of NAV residing in the lowest quartile of ESG scores in the portfolio is reflective of our pledge to invest more in high-scoring opportunities. Further, when considering disposals, we will look at the lower-scoring assets as a priority, whilst taking disposal decisions based on financial metrics.

The purpose of these investments is diversification. As specified in the investment criteria, the Fund will invest across different sectors and sub-sectors to ensure the portfolio is sufficiently diversified. Naturally, certain sectors and sub-sectors are more aligned with environmental characteristics than others; as a result there will always be a spread in ESG scores within the portfolio.

We cannot reliably measure compliance with minimum environmental or social safeguards, as we lack the data and evidence to do so since many of our investee companies lack the sufficient resources and/or capabilities to be able to ensure compliance with minimum safeguards throughout their value chains.

Nonetheless, all assets undergo our three-part process of negative screening, thematic investing (positive screening), and ESG scoring, as described the Fund’s ESG policy. This means that assets not meeting the Fund’s investment criteria and negative screening criteria will be excluded, thus making an investment in an asset not meeting minimum environmental or social safeguards unlikely.

Furthermore, where appropriate, loan terms will include covenants or repeated representations to ensure that the borrower complies with its stated ESG objectives and to encourage it to improve its standards over time. These could include obligations to meet minimum environmental safeguards.

We also engage with borrowers on ESG matters as part of our ongoing monitoring process. For example, we send an annual ESG questionnaire to all borrowers, which includes questions related to the maintenance of minimum safeguards.

# Annex I: SFDR Periodic Disclosure

continued



## What actions have been taken to meet the environmental and/or social characteristics during the reference period?

The Fund continued to make investment decisions this year in line with its three ESG Goals. Based on the Fund's investment strategy, when evaluating potential investments, the Investment Adviser prioritised new transactions with higher ESG scores, and when considering the potential disposal of investments, the Investment Adviser prioritised transactions with lower ESG scores, whilst taking disposal decisions based on financial metrics.

The Investment Adviser continued to take a proactive approach to managing the loan book and engage with borrowers in relation to sustainability-related topics on a regular basis as per the Fund's ESG policy. SEQI's range of engagement strategies are designed to encourage and promote positive behaviour in the companies that it lends to, and some of those that were employed during this reference period are described below.

Where appropriate, loan terms included covenants or repeated representations to ensure that the borrower complies with its stated ESG objectives and to encourage it to improve its standards over time.

The Investment Adviser also adopted financial terms in a loan where the interest rate might fluctuate depending upon the borrower's performance on environmental metrics.

In addition, where appropriate, loan terms included an obligation on the borrower to report suitable ESG metrics on a best-efforts basis.

Borrowers were asked to complete annual post-investment ESG questionnaires. These cover quantifiable ESG metrics/KPIs when appropriate, CO<sub>2</sub> emissions, health and safety records, CQC ratings, etc, as well as confirmation of the borrower's overall ESG policies and procedures. SEQI requires supporting documentation and/or external verification to evidence borrowers' ESG claims.

The environmental characteristics of the Fund and sustainability indicators used to measure this were met through a combination of investing in higher-scoring opportunities, disposing of lower-scoring opportunities, and using a range of engagement strategies with borrowers.



## How did this financial product perform compared to the reference benchmark?

Sequoia Economic Infrastructure Fund does not use a specific index designated as a reference benchmark to determine whether the product is aligned with the environmental and/or social characteristics it promotes.

No prescribed benchmark is used in the ESG scoring assessment, as instead an internal methodology is used with a relative environmental score from 1-5 based on sub-sector. Benchmarking may be used on a case-by-case basis to assess positive/negative score modifiers, which could include, for example, research on the borrower's peer group or reference to government statistics.

How does the reference benchmark differ from a broad market index?

N/A

How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?

N/A

How did this financial product perform compared with the reference benchmark?

N/A

How did this financial product perform compared with the broad market index?

N/A

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

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# Annex II: SFDR Principal Adverse Impact Statement

## Sequoia Economic Infrastructure Fund Principal Adverse Impact Statement

Sequoia Economic Infrastructure Fund (“SEI”, “the Fund”) does not consider the PAIs of its investment on sustainability factors.

SEI does not commit to make “sustainable investments” per the definition of Article 2(17) of Regulation (EU) 2019/2088 (SFDR) and, as such, does not calculate or report the PAI indicators for the Fund.

Nonetheless, the Fund recognises the importance of considering PAIs and is taking reasonable steps on making progress in the measurement of these metrics at the Fund level. The Fund’s ability to measure and thus consider the adverse impacts is highly dependent on the availability and accuracy of data. We request relevant data from our investee companies upon origination and annually thereafter and embed covenants into loans, where possible, to mandate the provision of certain datapoints.

However, we invest predominantly in private debt with a skew towards smaller and mid-sized companies and a sizeable proportion of the portfolio is US-based. Given the asset class and nature of our investments, the collection and reporting of PAI data at our investee companies is limited.

The integration of PAIs is further impaired by the current absence of reliable benchmarks or external data sources that could be used to reliably generate estimated data specific to our portfolio to comply with the PAI technical reporting requirements.

We cannot yet commit to a date by which we will be able to adequately consider such PAIs.

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## Contacts

For further information, please contact:

### Sequoia Investment Management Company Limited

+44 (0)20 7079 0480

Steve Cook  
Dolf Kohnhorst  
Randall Sandstrom  
Greg Taylor  
Anurag Gupta

### Jefferies International Limited

+44 (0)20 7029 8000

Gaudi le Roux  
Stuart Klein

### Teneo (Financial PR)

+44 (0)20 7353 4200

Martin Pengelley  
Faye Calow

### Sanne Fund Services (Guernsey) Limited (Company Secretary)

+44 (0)20 3530 3667

Matt Falla  
Lisa Garnham

### About Sequoia Economic Infrastructure Income Fund Limited

The Company seeks to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments. The Company is advised by Sequoia Investment Management Company Limited.

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**Sarnia House**

Le Truchot  
St Peter Port  
Guernsey  
GY1 1GR

[www.seqi.fund](http://www.seqi.fund)