AUGUST 2021

NET ZERO INVESTING

Infrastructure Investing for a Sustainable Future

INTRODUCTION

The transition to a Net Zero economy will require a dramatic increase in infrastructure investment

The recent landmark IEA report[1] forecasts that investment in infrastructure will need to increase by over 250% in real terms by 2030 (from cUS$0.7 trillion p.a. to cUS$2.5 trillion p.a) to achieve Net Zero emissions in 2050 and limit global warming to 1.5c.

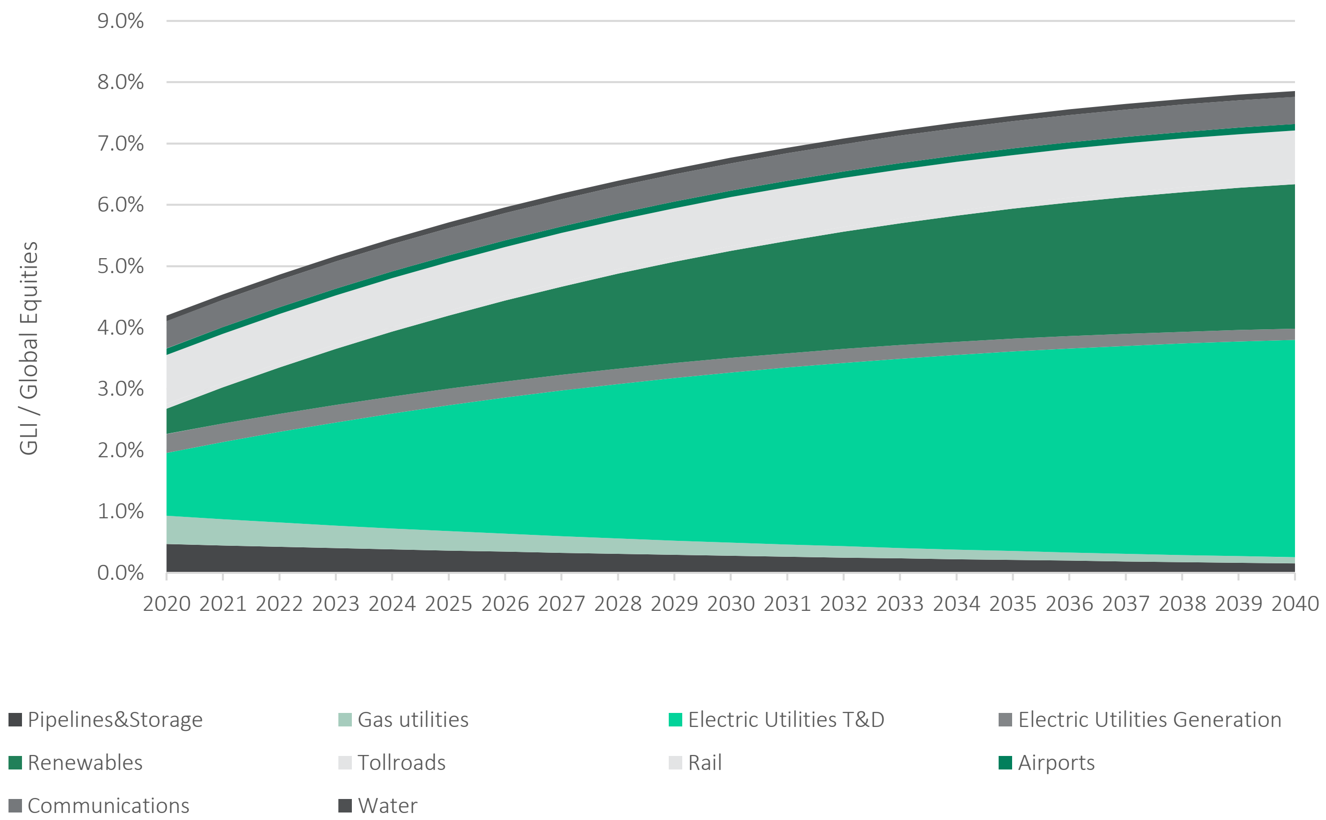
For companies within the global listed infrastructure sector, this means that annual investment should more than double from US$300bn in 2020 to nearly US$600bn by 2030[2].

This would result in global listed infrastructure asset growth increasing from just over 3% p.a. to over 12% p.a.

[1]The recent International Energy Agency (IEA) report "Net Zero by 2050 - A Roadmap for the Global Energy Sector" provided the most up to date and detailed picture of the transition including an assessment of the investment requirements noted above.

[2]Average GDP growth used in IEA NZE forecasts and analysis.

Global Listed Infrastructure as a % of global equities



Source: ATLAS Infrastructure forecasts, IEA investment & GDP estimates

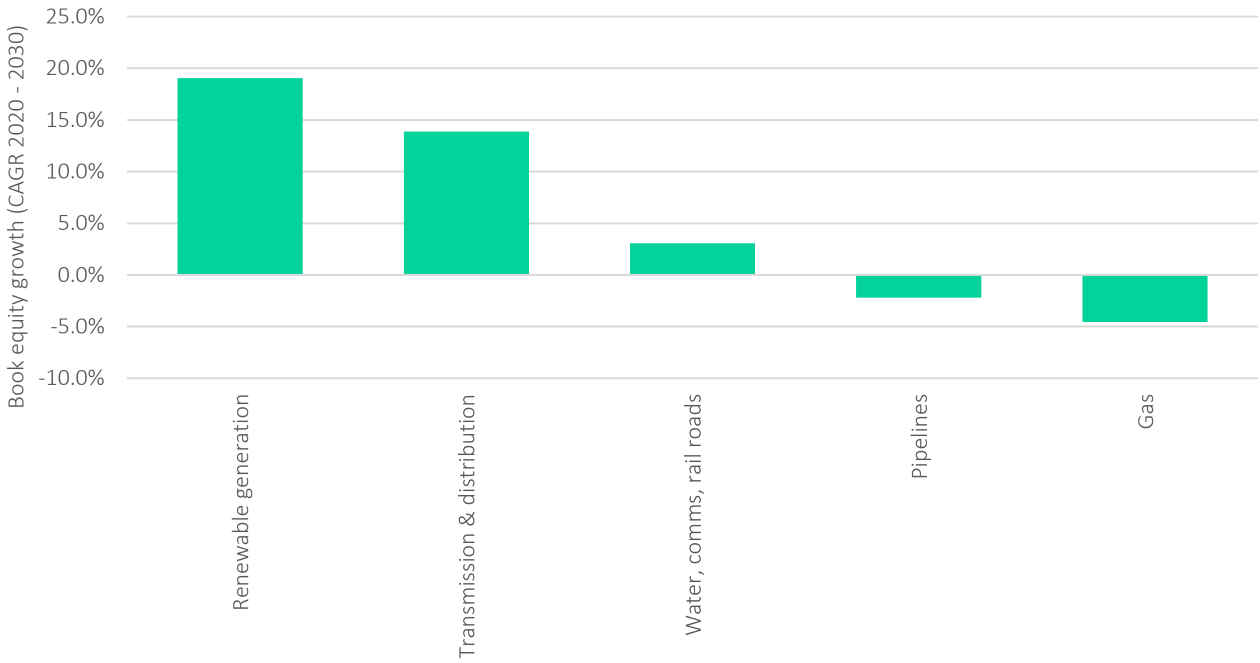
IMPLICATIONS FOR INVESTMENT

Active management becomes crucial given the different trajectory of infrastructure assets

Whilst global listed infrastructure will become a larger proportion of global listed equity markets, different infrastructure sectors are navigating very different growth trajectories through the transition to Net Zero, including some which are in decline (notably pipelines & storage, gas utilities).

Different infrastructure sectors and assets will diverge based on the extent to which they are directly engaged with (and integral to facilitating) the transition to Net Zero or vulnerable and at risk because of it.

Infrastructure sector asset growth CAGR – 2020 to 2040



Source: ATLAS Infrastructure forecasts, IEA investment & GDP estimates

THE ATLAS ADVANTAGE

Deep due diligence supporting high conviction investing

ATLAS Infrastructure has a highly resourced, specialist infrastructure team which evaluates the impact of the shift to Net Zero on each individual asset across all the companies within its investment universe.

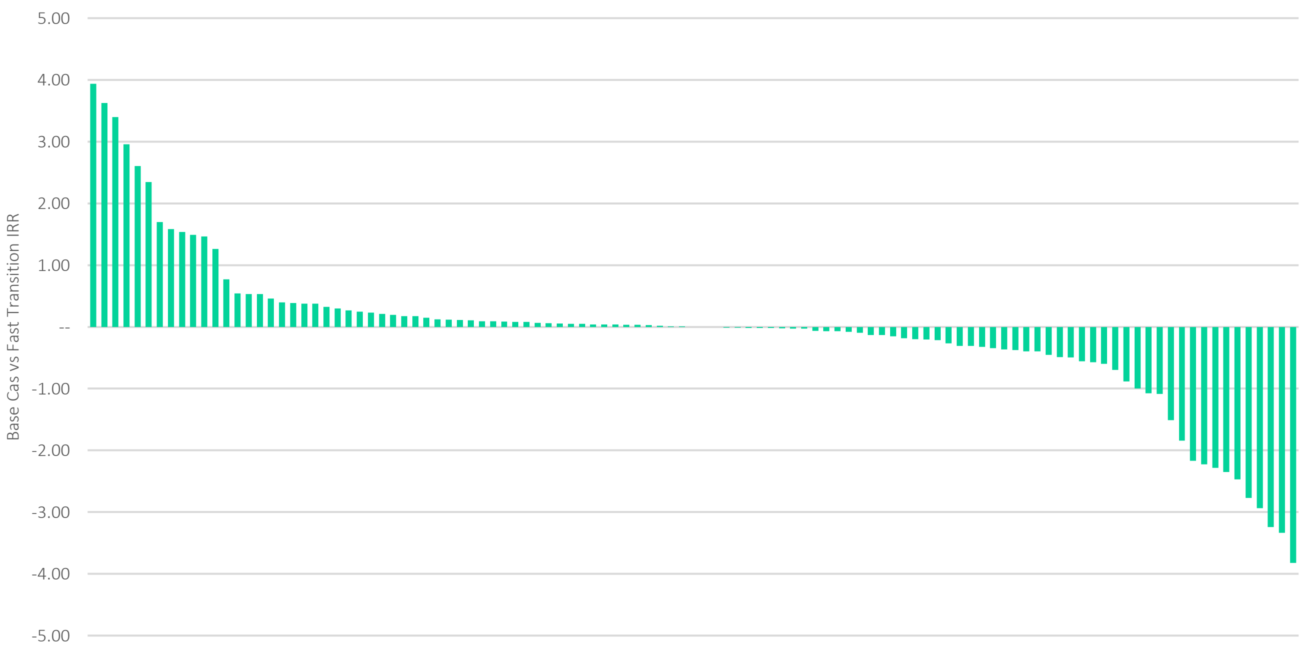
The implications for company valuations in a rapid 'Fast Transition' policy acceleration differ from company to company and asset to asset. This is based on asset specific factors such as the age, efficiency and regulatory status of each individual power plant and pipeline asset. Even within a given sector results will vary: some electric and gas utilities will be affected positively, others negatively.

Our modelling suggests that under a 'Fast Transition' scenario, the difference in forward IRRs offered by different listed infrastructure companies will vary materially. Currently our modelling shows those companies best positioned under a 'Fast Transition' stand to gain over 200bp of additional annual IRR. Others stand to lose more than 300bp as the transition develops.

Detailed bottom-up company and asset due diligence remains increasingly important to differentiate between those best positioned to benefit from the transition and those most vulnerable and at risk of capital loss.

The chart below shows our estimate of the difference between the 10-year investment return of each company in the ATLAS investment universe in a Fast Transition scenario relative to their Base Case return. Those companies to the left have higher returns in a Fast Transition scenario, whilst those on the right are at risk of lower returns in this situation.

Estimated change in shareholder returns for ATLAS investment universe companies from a 'fast transition' to 1.5c



Source: ATLAS Infrastructure forecasts, 31 March 2021

THE ATLAS ADVANTAGE (CONT.)

Looking through the data and identifying attractive transition opportunities

Many investors use third party ESG data to filter indices or make decisions about a specific company. Often this data is backward looking or relies on generic formal company disclosures.

Active managers can deploy specialist due diligence resource across a wide set of data sources, including regulatory submissions, to research and analyse each company (along with all its infrastructure assets) and its future carbon emissions profile to identify mispriced opportunities. For example, a company may be making or planning substantial carbon reductions towards legitimate Net Zero targets, without those developments being captured in the historic data (or appreciated by the market).

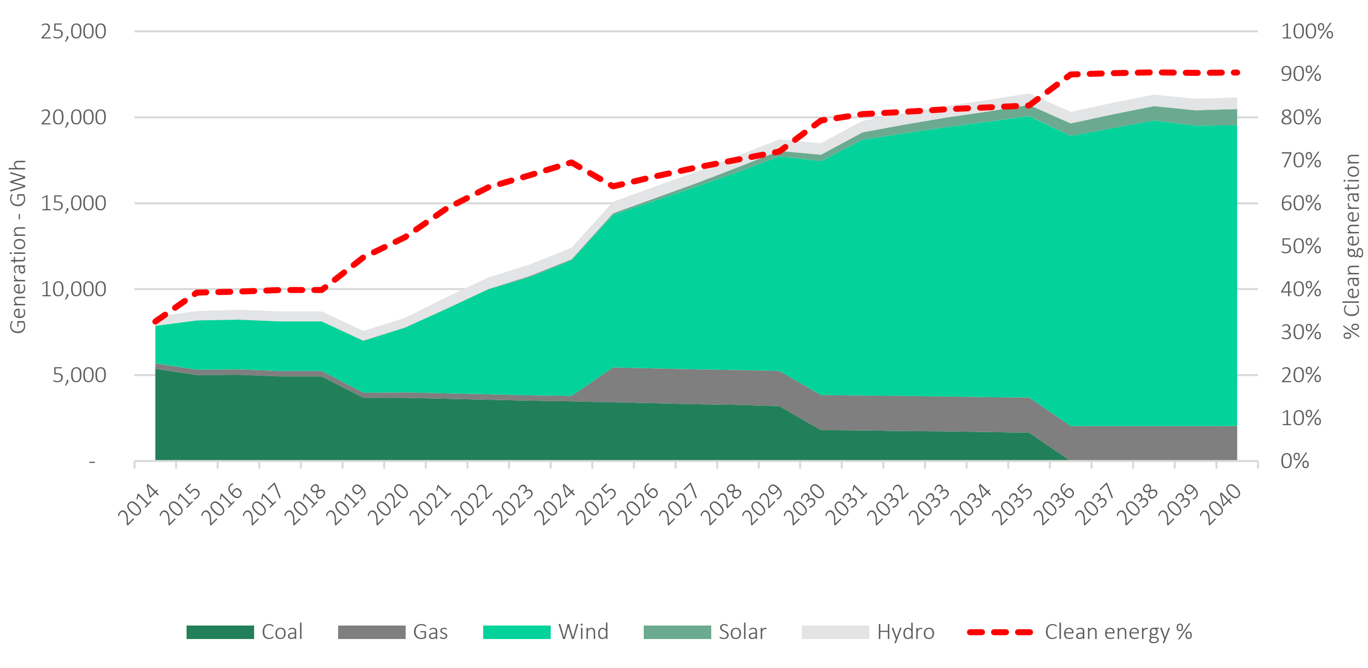
Energy Transition, a live example: ALLETE

ALLETE Inc. is a company that ATLAS identified in early 2020 as offering potential in a Fast Transition scenario. A US electric utility, it used to rely heavily on coal, however, its emissions have been falling rapidly as the company makes a substantial pivot towards becoming one of the leading developers of renewable energy in the US Midwest.

ATLAS analysis showed that not only was the company about to meet its interim target of 50% clean generation in 2020, but it was well on track to achieving its medium-term goal of >80% clean energy in 2030. ALLETE Inc. was subsequently added to the S&P Clean Energy Index in March 2021[3].

[3]S&P Clean Energy Index – new inclusions

ALLETE Inc. owned generation – 2014 to 2020 & forecast to 2040



Source: ATLAS financial models, company disclosure, Trucost, 31 March 2021

IMPLEMENTATION OF NET ZERO

Calculation of portfolio emissions pathways and targets

In December 2020, ATLAS became a founding signatory to the Net Zero Asset Managers initiative (NZAM). The NZAM commits managers to achieving Net Zero emissions across all investments by 2050, and to set an interim (prior to 2030) target for the proportion of investments which are aligned with this goal.

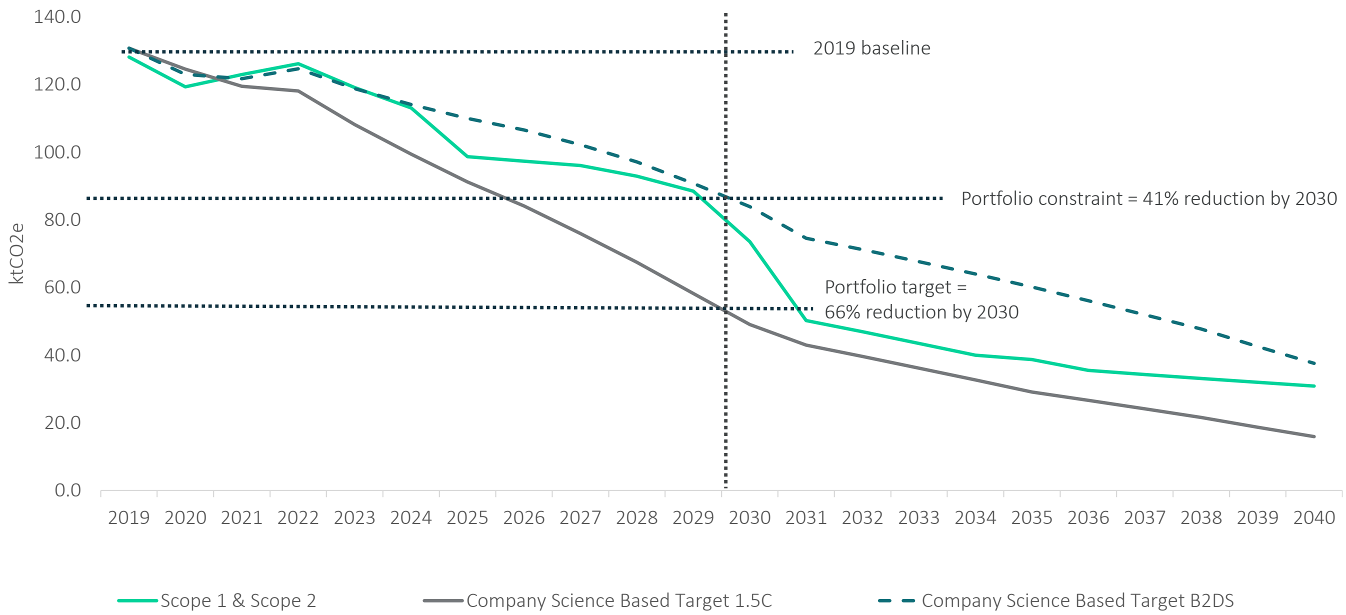
This commitment is consistent with ATLAS's belief that we can deliver superior sustainable returns by ensuring that our portfolios are well positioned to take advantage of opportunities from climate transition as well as minimising the risks associated with stranded assets.

For many investors, the hardest part of implementation involves the estimation, forecasting and benchmarking of long-term asset level emissions. In this regard, ATLAS's investment approach, which focuses on long term asset level forecasting coupled with extensive management interaction, provides us with the capability to undertake this detailed analysis.

ATLAS applies the target-setting methodology of the Science-Based Targets initiative (SBTi) and benchmarks reported and physical activity-based emissions trajectories relative to the reductions required to meet the Paris Agreement's climate goals.

The resulting aggregate Scope 1 & 2 emissions of the ATLAS portfolio are shown below and compared to our current forecasts of the reductions required under SBTi pathways.

ATLAS Portfolio emissions (Scope 1 & 2 CO2e equity share) vs STBi Pathway Benchmarks



Source: ATLAS financial models, Science Based Targets initiative (SBTi), August 2021

SUMMARY

- The transition to a Net Zero economy will require a dramatic increase in infrastructure investment
- Infrastructure is likely to become a more significant part of investors' portfolios
- An active approach to investing in infrastructure is becoming crucial to investors sensitive to energy transition given the different carbon trajectories of different subsectors and of individual companies
- A large, well-resourced and specialist team with a fully integrated approach to ESG and the ability to model future climate scenarios is required to identify the opportunities and risks that result from this material structural shift
- ATLAS applies the target-setting methodology of the Science-Based Targets initiative (STBi) and we have benchmarked emissions performance relative to the reductions required to meet the Paris Agreement's climate goals

ATLAS Infrastructure – at the forefront of sustainable infrastructure investing and climate transition integration

- ATLAS is determined to stay at the forefront of best practice with respect to the integration of investment and climate change, possibly the most important issue we face today
- ATLAS is an active supporter of the Institutional Investors Group on Climate Change (IIGCC) and is proud to be a founding signatory of the Net Zero Asset Manager Initiative
- The ATLAS Global Infrastructure (UCITS) Fund has made the necessary disclosures under SFDR to be classified as an Article 8 Fund and has achieved an MSCI ESG rating of AA[4]
- ATLAS was awarded "Best Climate Impact Responsible Investor" by Cfi.co in both 2020 and in 2021
- ATLAS is a signatory to the UN Principles of Responsible Investment

[4] *Produced by MSCI ESG Research as of 31 December 2020 and 31 August 2020*

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