



TAILWATER
CAPITAL

ESG ANNUAL REPORT | 2021

FULL *immersion* INVESTING

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To Our Investors, Partners, and Employees,

At Tailwater, we have always believed that the consideration of environmental, social, and governance (“ESG”) factors is how our portfolio can contribute energy solutions that enhance the sustainability of the planet and is also critical to the development of stronger portfolio investments. The market’s current focus on ESG reflects what was for Tailwater a founding principle: to build long-term, sustainable businesses developed with a strong ESG framework.

In this, our first Annual ESG Report, we are proud to share with our partners the program and policies we have developed to support this long-standing commitment to ESG and the tremendous focus we have put on this important topic throughout 2021 and beyond. We detail not only our approach to ESG governance – including proudly becoming a signatory to the United Nations-backed Principles for Responsible Investment – but also the development of our material areas of ESG performance. We are pleased to report our baseline data for 2021, beginning an era of transparent accountability and quantifiable progress to quantify our strategies of advancing our portfolio company’s ESG performance as we simultaneously drive investment value.

This ethos is further reflected in our corporate approach to ESG as well as Diversity, Equity, and Inclusion (“DE&I”). In 2021, we conducted our first annual employee engagement survey, created meaningful structure around driving diversity in our recruiting practice and in the broader energy and investment industries, and continued our practice of donating time and resources to our communities.

We look forward to working with all our stakeholders to continue to build and improve our ESG and DE&I strategies. Thank you for your ongoing partnership through this important journey.

Sincerely,



Jason Downie
Co-Founder and Managing Partner



Edward Herring
Co-Founder and Managing Partner

The global energy and infrastructure sectors are undergoing a long-term transition from a conventional to a low carbon future. We are excited for the future of our portfolio and our ability to advance returns-driven environmental solutions throughout the industry.

PIONEERING ENERGY SOLUTIONS

Tailwater Capital’s differentiated “Full Immersion” investment approach supports critical energy needs and opportunities that empower the energy transition.

Firm Overview

Tailwater is a growth-oriented, middle market private equity firm on a mission to provide needed energy and growth infrastructure solutions. Through our distinct positioning, Tailwater provides insights into debottlenecking opportunities, long-term macro trends, and environmentally conscious investing. We believe our sectors are constantly evolving, and we believe our unique perspective sets us apart in the industry.

\$3.7B

COMMITTED CAPITAL

\$23B

TOTAL TRANSACTION VALUE

170+

TRANSACTIONS

555

EMPLOYEES IN OUR PORTFOLIO

~40

CORPORATE PROFESSIONALS

180+

YEARS COMBINED INVESTING EXPERIENCE

Investment Perspective Throughout the Energy and Growth Infrastructure Value Chains

We are excited to be leaders in a sector where innovation and environmental solutions can deliver outsized returns while having a lasting, positive impact on our society. **We continue to invest in three core areas that seek to solve the world’s three largest energy challenges:**

Global Energy Challenges		
Emission Reduction	Energy Reliability	Waste Solutions
Tailwater Capital Solutions		
 <div>Energy Supply</div>	 <div>Delivery & Logistics Infrastructure</div>	 <div>Recycling & Byproduct Management</div>
Alternative power and fuel that reduce the world’s carbon footprint and responsibly sourced hydrocarbons to bridge necessary reliability	Critical infrastructure that drives energy efficiency, reliability, and emissions reductions	Sustainable solutions that convert waste into reusable end products and environmentally conscious byproduct management

Investment Acumen across Evolving Carbon Economies

Our full immersion approach and demonstrated track record of solutions-based growth infrastructure investment has positioned our firm well with sector counterparties navigating the energy transition. We continue to see more actionable opportunities to invest capital that meet our return mandates and provide a path toward a lower carbon future.



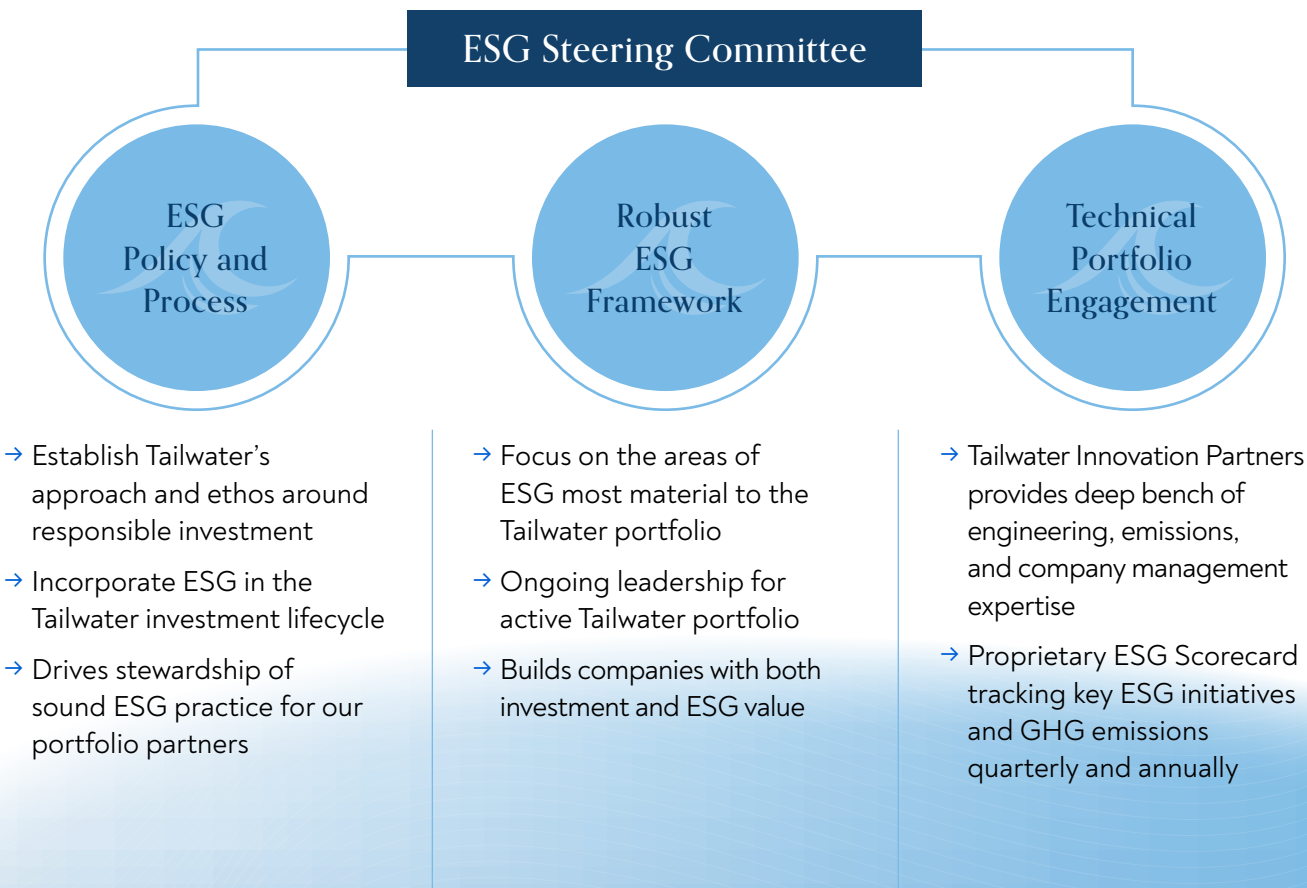
POSITIONED FOR ESG LEADERSHIP

EMBEDDED ESG FOCUS

Tailwater takes a proactive, committed approach to Environmental, Social, and Governance (ESG) as well as Diversity, Equity, and Inclusion (DE&I) considerations.

As a partner to our portfolio and shepherds of capital for our investors, Tailwater’s aim is to help build best-in-class companies, drive growth, and ultimately deliver value. We believe concepts such as responsible operatorship; corporate structure; and a safe, inclusive workforce are not only core to our investors but also essential components of value creation.

To this end, Tailwater has developed robust ESG infrastructure that allows us to drive both investment returns and stakeholder value in the communities in which we do business.



ESG GOVERNANCE

Commitment to ESG and DE&I performance both within our firm and within our portfolio is driven by our senior leadership and echoed throughout the firm.

Tailwater ESG Steering Committee

Our ESG Steering Committee is led by our Co-Founders and Managing Partners, Jason Downie and Edward Herring, with active participation from Tailwater’s Partners. The Committee is chaired by Roger Fox, our Head of ESG, with additional representation of portfolio, LP, regulatory, and community stakeholders.

 Jason Downie Co-Founder & Managing Partner	 Edward Herring Co-Founder & Managing Partner	 David Cecere Partner	 Joel Fry Partner
 Stephen Lipscomb Partner	 Brian Blakeman CFO, COO	 Roger Fox CEO of Tailwater Innovation Partners and Head of ESG for Tailwater	 Jill McMillan Managing Director, Head of Corporate Communications & Public Affairs

STEERING COMMITTEE
MANDATE

- Sets annual goals for ESG and DE&I advancement at the portfolio- and GP-level
- Meets quarterly to review these goals, set new priorities, and review performance
- Annual review of ESG Policy
- Oversight of ESG integration in the Firm’s investment process
- Stewardship of best practice and industry trends
- Creation of Subcommittees as needed to focus on key ESG-related initiatives



In 2022, Tailwater was proud to become a signatory to the United Nations-supported Principles for Responsible Investment (PRI), deepening our commitment to acting as stewards of ESG throughout the industry.

ESG POLICY AND PROCESS

Our unique integration of ESG throughout our investment and management process reflects our deep focus on ESG factors.

Formalizing ESG

ESG POLICY

Our ESG Policy, updated annually, codifies our core ESG orientation, defining Tailwater’s ESG process and philosophy. We benefit in the ongoing development of the policy from continuous engagement with our portfolio companies and guidance from our Limited Partners and peers in the energy industry.

Tailwater is proud to have historically taken a proactive approach to ESG through both environmentally conscious investments and a core commitment to responsibility. Tailwater Capital and its affiliated companies are committed to an ongoing and long-term process of incorporating ESG considerations into all levels of our decision making. We believe that responsible investing enables us to better manage risk, create value and generate sustainable returns.

TAILWATER ESG POLICY

ESG PLAYBOOK

Tailwater’s proprietary ESG Playbook onboards new portfolio companies to our robust ESG framework, detailing our modes of ESG engagement, the KPI metrics we use to measure ESG performance, and the standards and frequency we promote in ESG reporting.

While we will seek to engage throughout our partnership on ESG enhancement, there are several items related to the responsible and resilient operation of companies which we believe are a minimum need for every company in the Tailwater portfolio. These needs are reflective of and informed by the investment landscape with the goal of positioning Tailwater investments more strongly with counterparties and lenders.

PORTFOLIO COMPANY REQUIREMENTS

Environmental	Social	Governance
<div>→ Tracking and evaluation of carbon footprint</div> <div>→ A goal of minimizing emissions reductions over time</div> <div>→ Active asset monitoring for environmental and human safety as well as community protection</div>	<div>→ Formal safety program including an onboarding process and regular training both in the office / in the field</div> <div>→ Employee engagement through surveys, mentorship, and/or formal programs</div> <div>→ Opportunities for employee volunteerism in the community</div>	<div>→ Formal employee handbook and/ or Code of Ethics, with at least once annual employee compliance training</div> <div>→ Board of Directors with regular meetings and reporting including Tailwaters’ material areas of ESG focus</div> <div>→ Executive compensation tied to material ESG priorities</div>

ROBUST ESG FRAMEWORK

In 2021, Tailwater conducted a Materiality Assessment to determine the most material areas of ESG impact for our portfolio and investments.

Tailwater’s Core Areas of ESG Focus

To determine the most impactful areas of ESG consideration for our strategy, Tailwater engaged with a diverse set of stakeholders, including our portfolio companies, our Limited Partners, our investment team, and the broader energy and growth infrastructure investment sector. The result was the development of Tailwater’s Core Areas of ESG Focus.



We believe the concept of “materiality” is important in that it directly links ESG with bottom-line returns, while still prioritizing Tailwater’s fiduciary obligations as an investor and investment partner to our LPs. The Tailwater investment team and Tailwater Innovation Partners engages with each portfolio company around the material areas of ESG, with a customized focus for each company.

Through the process of our ESG Steering Committee, Tailwater hopes to continue to refine these areas to advance the integration of ESG within our investment process and support a positive portfolio impact.

Case Study: Goodnight Midstream



As a midstream provider of integrated saltwater management for the oil and natural gas industries, Goodnight Midstream’s business model benefits from and can be impacted by all of Tailwater’s core areas of ESG focus.

- To mitigate CO2, Goodnight moved its entire eligible Texas operations to renewable power and expects to have a solar facility in place in New Mexico by year-end
- The company is part of a power demand response program in Texas and was the first within their electric co-op to do the same in North Dakota
- The company has been actively diversifying its recruiting network, reaching out to HBCUs and veterans networks
- Goodnight’s systems are designed for high utilization with ongoing analysis that prevents overbuilding
- Goodnight engages with its community and employees through reimbursement for education of any kind, quarterly charitable office events, and donation of excess equipment for use by local colleges
- Third-party cybersecurity experts have designed custom training modules for Goodnight employees and ensure active system protection through a variety of redundancies
- Safety compliance and deep quarterly training gives Goodnight an edge in attracting major oil and gas customers
- Goodnight serves as a governance model for the Tailwater portfolio, with regular anti-harassment training and an advanced Code of Conduct that prioritizes corporate citizenry
- Goodnight is the only produced water company using AI technology to predict leaks with over a million data points per second

TECHNICAL PORTFOLIO ENGAGEMENT

Tailwater Innovation Partners (TIP) is an in-house resource that works with each of our portfolio partners to build better businesses and advance ESG and DE&I performance.



Stewarding ESG

With over 80 years of relevant experience, TIP provides operational enhancement and partnership-based guidance to the Tailwater portfolio. The TIP team augments Tailwater’s investment acumen with engineering, company management, and ESG expertise – as well as identifying thematic opportunities for energy transition investment.

TIP is led by Roger Fox who serves as Tailwater’s Head of ESG and chairs of our ESG Steering Committee along with members of our senior leadership.

MEANINGFUL ESG FOCUS

Utilizing the expertise of our investment team and the acumen of Tailwater Innovation Partners, we regularly and formally monitor ESG performance together with our portfolio.

We believe our sectors are constantly evolving, and we believe our unique perspective sets us apart in the industry. In concert with our investment approach, Tailwater has formalized the integration of company-specific ESG considerations throughout our ownership period with regular, two-way communication and reporting around ESG-related expectations and KPIs.

Tailwater ESG Scorecard – Board Pro Forma

- Deal teams, TIP, and portfolio management work together to create a heat map of exposure, needs, and opportunities in each of Tailwater’s Core Areas of ESG Focus
- Each Core Area of ESG Focus is rated in terms of its business model impact and progress
- This multi-dimensional approach allows us to flag areas of critical ESG and DE&I development and opportunity specific to each company’s value creation plan
- Progress is measured quarterly at each Board meeting and reported back to Tailwater



ESG AND OUR
PORTFOLIO

CASE STUDIES



Intensive certification to advance safety and enhance marketability

As an oil and gas logistics company, Copperbeck understands that safety, reliability, and sustainable operations are mission-critical to the successful operation of its business. In 2021, after a 2-year process, the company completed the National Association of Chemical Distributors (NACD) Responsible Distribution certification.

- NACD is a highly intensive third-party verified environmental/health/safety (EH&S) and security program that allows certified organizations to demonstrate their commitment to continuous performance through every stage of handling, transportation, and disposal of product.
- Copperbeck used the opportunity to rewrite its management systems for these important areas, hiring a new, dedicated EH&S professional.
- The certification not only heightened Copperbeck’s safety profile, but also gave them a pathway to securing business from chemical distributors.
- Guiding principles of the certification extend to communication with local communities, audits and insurance, and marketplace transparency.

→ [COPPERBECK.COM](https://copperbeck.com)



Substantial emissions reductions through operational efficiency

Cureton Midstream has made operational improvements to substantially reduce CO2 and methane emissions in their Colorado-based natural gas gathering and processing facility.

- Instituted a program to replace conventional pipeline maintenance equipment with low emissions equipment resulting in a 97% decrease in methane emissions from routine pipeline pigging related activity.
- Substantially reduced flaring at tank batteries by installing vapor recovery systems, which reduces emissions and recovers valuable hydrocarbon product.
- Prevented routine maintenance natural gas blowdowns from reaching the atmosphere by installation of additional pipeline headers to capture the product. This resulted in the blowdown reduction and product recapture of approximately 400,000 cubic feet of natural gas per year.
- Once completed, these projects are expected to result in a reduction of annual CO2e emissions of approximately 15,000 metric tons.

→ [CURETONMIDSTREAM.COM](https://curetonmidstream.com)



Robust cybersecurity and systems focus with extensive training

Silver Creek Midstream significantly advanced its cybersecurity program, believing that human and technological safety are two of the most critical risks to company performance.

- Conducted a cybersecurity audit to identify key areas for improvement including redundancies on corporate data storage, creating a Disaster Recovery Plan, and installing a multi-factor authentication system that reduces the possibility of an email hack by 95%.
- Installed software solutions for continual hack and virus protection, as well as a robust Managed Detection Response system which monitors for unusual system changes which could represent inbound threats.
- Instituted quarterly wire fraud training for all applicable personnel.
- More broadly, created monthly employee training and cybersecurity awareness processes reducing phishing test failures by over 80%.

→ [SCMIDSTREAM.COM/](https://scmidstream.com/)



Leadership-driven charitable and community engagement

Tall Oak Midstream has a core value system that includes a commitment to the communities in which it operates. Through significant investment of time and financial resources, the company is a model of community engagement.

- Every member of the senior leadership team serves on the board of a local charity to foster active engagement by the organization.
- Company-wide events and senior leadership Board membership support local needs including Allied Arts (bringing arts programs around the Oklahoma City HQ), Positive Tomorrows (providing schooling for K-12 children without housing), and SunBeam Family Services (providing outreach and support for single parent families).
- Tall Oak’s President and CEO was a founding member and serves as chairman of the Oklahoma City Folds of Honor Chapter, creating scholarships for children of wounded veterans.
- Tall Oak has raised more than \$2 million for Folds of Honor through annual events hosted by the organization and including its suppliers and partners.

→ [TALLOAKMIDSTREAM.COM](https://talloakmidstream.com)

ESG AND OUR
ORGANIZATION

MODELING ESG IN OUR FIRM

For Tailwater, ESG and DE&I are not merely programs, but deeply held philosophies. We seek to model best practices for our portfolio and our industry by starting within our own firm.

Noteworthy Developments:

- Carbon footprinting entire portfolio, with study underway to provide renewable power options for every company.
- Completed portfolio-wide cost savings and efficiency analysis following surplus equipment survey.
- New payroll system rolled out to help track and advance diversity positioning
- ESG Scorecards and initiatives tracking in place for Tailwater and all portfolio companies
- Employee Handbook issued along with first annual employee engagement survey
- Cyber security portfolio review and audit planned for the second half of 2022

Diversity, Equity & Inclusion

Over the past year, we advanced significant DE&I practices in our organization including:

Employee Engagement	<ul style="list-style-type: none">→ Involving members of the broader Tailwater team in executing the goals set by the ESG Steering Committee→ Inaugural Employee Pulse Survey to identify the needs of our employee community and advance open dialogue for a more inclusive environment
Policy and Process	<ul style="list-style-type: none">→ Expanded Firm policies, with more equitable benefits, both to serve our team and attract talent→ Pursuing third-party organizations for regular Tailwater employee DE&I training
Recruiting	<ul style="list-style-type: none">→ Gave recruiting agencies a mandate to increase female and minority representation in all searches→ Resulted in the hiring of two female associates in our 2021 class

At the firm, we believe the combination and variety of different experiences, knowledge and perspectives are key to our organization’s success. To that end, we embrace diversity, equity, and inclusion practices not only because they are morally important, but also because these efforts strengthen the organization so that we may better serve our partners and lift them towards their goals.

TAILWATER DE&I POLICY

Employee Engagement

Tailwater conducted its first annual employee pulse survey to advance our organization as both an inclusive and attractive workplace. We plan to steward this practice of employee engagement to our portfolio companies

90% PARTICIPATION RATE	High marks for CULTURE TEAM EVENTS LEADERSHIP WORK-LIFE BALANCE	Improvement identified for COMMUNICATION FURTHER CHARITABLE PARTICIPATION CAREER OPPORTUNITIES
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EXPANDING ESG OUT FROM OUR FIRM

Community and Charitable Engagement

Guided by the personal and professional activities of our senior leadership, there is a spirit of volunteerism, charity, and community orientation that runs deep throughout our organization. A significant element of this charitable orientation is focused on the support of new perspectives throughout the investment, energy, and infrastructure industries – which we believe is key to their successful future.

SCHOLARSHIPS FOR DIVERSITY IN ENERGY



Tailwater Capital was thrilled to partner with The Foundation for the Women's Energy Network (WEM) to provide two scholarships for the 2022-23 academic year as part of an ongoing effort to support diversity and foster the career and leadership development of women in energy finance.

Tailwater Capital - Energy Finance

- The Energy Finance Scholarship will be awarded based upon the assessment of leadership and professional potential in the areas of energy finance or investments as demonstrated by the candidate's application, academic track record and application essay.

Tailwater Capital - Trailblazer

- The Trailblazer Scholarship was created to provide financial assistance to women studying toward careers in energy or STEM-related fields who identify as part of historically underrepresented groups, including: Black or African American, Hispanic or Latino, Native Hawaiian or Pacific Islander, Native American or Alaska Native, or Asian.

COMBATING SYSTEMIC COMMUNITY CHALLENGES

Centered around areas including Education, Healthcare, and Community Development & Human Services, Tailwater employees prize civic engagement and often may contribute – both financially and with their time – to the communities in which we live and work.

SAMPLE ORGANIZATIONS SUPPORTED

COMMUNITY

61% 33% 6%

\$2.5MM+ DONATIONS

EDUCATION
HEALTHCARE
DEVELOPMENT & HUMAN SERVICES

Since inception, Tailwater and its team have donated over \$2.5 million to charitable organizations

LOOKING AHEAD

As participants in an industry that is so critical to our sustainable, equitable future, Tailwater is committed to ongoing advancement of our ESG and DE&I practice. In the coming year, we hope to continue to make significant progress in the following areas:

- Continually deeper integration of ESG throughout our investment process, with formalized Investment Committee process that aligns ESG with value creation
- Ongoing advancement of DE&I initiatives within our firm, as well as engagement externally to promote underrepresented groups in energy
- Submit the Firm's first reporting under the PRI framework
- Analysis of the results of our carbon footprinting exercise to determine the extent of our Scope 1 and Scope 2 portfolio greenhouse gas emissions and lay the foundations for developing goals for reduction
- Continued portfolio engagement to steward heightened ESG commitment, including rolling out the Tailwater employee engagement survey as an example for the portfolio
- Deliver technological innovations that grow our portfolio and help our companies more directly serve the energy transition
- Plans to increase knowledge sharing across the portfolio with inaugural health, safety, environmental and operations conference for sharing of portfolio best practices.



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tailwatercapital.com