



## **RESPONSIBLE INVESTMENT POLICY**

*Updated: December 1, 2022*

### ***Statement of Purpose***

The Tailwater Capital mission is to seek partnerships with entrepreneurial management teams driven by a goal of creating value through a full immersion focus on growth infrastructure and the energy that is essential to the betterment of society. In the course of this investment focus, we believe that the consideration of environmental, social, and governance (“ESG”) factors is how Tailwater’s portfolio can contribute energy solutions that enhance the sustainability of the planet and is also critical to the development of stronger portfolio investments. It has always been our philosophy to build long term sustainable businesses developed within a strong ESG framework.

This Policy seeks to define Tailwater’s ESG process and philosophy. We have benefitted in the development of this policy from continuous engagement with Tailwater’s portfolio companies on their approaches to responsible investment, while seeking additional guidance from our peers throughout 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’s Responsible Investment Policy, applicable as of December 1, 2022, applies uniformly throughout our active funds and to each of our portfolio companies, where applicable. We proudly engage with our Limited Partners to power an ever-broadening dialogue on sustainability, responsibility, growth, and value.

### ***Oversight and Governance***

Tailwater’s ESG philosophy and ESG-related initiatives are led by our ESG Steering Committee, whose purpose, duties, and responsibilities are to assist the firm’s Partners and Investment Committee in evaluating, overseeing, and directing the course of ESG considerations. The Committee provides guidance on such matters and performs an oversight role in shaping our ESG Strategy.

Currently, the Committee is comprised of the Managing Partners, Jason Downie and Edward Herring; the Partners of the firm, David Cecere, Joel Fry and Stephen Lipscomb; our CFO/COO, Brian Blakeman; our Head of Communications and Public Affairs, Jill McMillan; and our Head of ESG, Roger Fox, who serves as



the Committee Chair. Through this diverse representation, we are pleased to consider the perspectives of portfolio, LP, regulatory, and community stakeholders in our ESG-related planning and strategy.

Tailwater’s ESG Steering Committee meets quarterly to review Tailwater’s Responsible Investment Policy and process, review portfolio ESG performance and highlight portfolio best practice, and set annual goals for ESG advancement at both the portfolio and GP levels.

**Stewardship and Portfolio Engagement**

Tailwater believes that investor action has outcomes – both intended and unintended – and that a purposeful focus on driving investment value aligned with societal value benefits all. To determine these sustainability outcome objectives, we have taken guidance from the United Nations’ Sustainable Development Goals (“SDGs”) to identify where the activities of our portfolio can positively impact key global issues. In our view, broadening our risk/return analysis for each portfolio investment to align financially material ESG issues with the SDGs increases the contribution our firm can make while creating enhanced portfolio company value.

Tailwater’s primary areas of SDG focus are as follows:

 <p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p>	<p><i>7.1 Ensure universal access to affordable, reliable and modern energy services.</i></p> <p>Tailwater has committed substantial capital to global energy supply, transportation, storage, and processing infrastructure. This infrastructure allows affordable, reliable, and low emissions resources to be processed into a consumable energy and transported to markets for consumption.</p> <hr/> <p><i>7.2 Increase substantially the share of renewable energy in the global power mix.</i></p> <p>Tailwater has committed to advancing transitional energy infrastructure through evaluating investment opportunities across the sustainable energy supply sector. In addition, we encourage clean energy substitution amongst portfolio companies.</p>
 <p><b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p><i>12.2 Achieve the sustainable management and efficient use of natural resources.</i></p> <p>Tailwater’s investment focus contributes to environmental solutions that reduce the use of natural resources while offsetting or reducing emissions via opportunities such as recycling, waste to product creation, and fuel creation from waste. A key element of our strategy also is carbon capture and sequestration related to industrial activity.</p> <hr/> <p><i>12.4 Achieve the environmentally sound management of chemicals and all wastes and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.</i></p>

	<p>Tailwater has historically had a number of investments that provide energy and growth infrastructure targeting the treatment of waste in the oilfield, in municipalities, and in the construction process.</p>
	<p><i>12.5 Substantially reduce waste generation through prevention, reduction, recycling and reuse.</i></p> <p>Tailwater’s investment activity also has served to reduce waste through prevention, recycling and reuse, resulting in diminishing of solid waste volumes as well as beneficial use of produced water and wastewater. Through an ongoing focus on opportunities for circularity in energy and growth infrastructure, we believe our portfolio can advance systemic waste reduction in the energy supply chain.</p>

Further to our contribution to the achievement of the SDGs on a societal scale, Tailwater expects all our portfolio companies to be responsible operators and positive contributors to the communities where they operate on a local scale. We lead by example through robust corporate stewardship regularly interacting with our management teams on a broad spectrum of ESG-related factors which may include safety, clean operations, regulatory risks and opportunities, and community engagement.

In addition to Tailwater’s senior-level support around ESG considerations, our portfolio resources include Tailwater Innovation Partners (“TIP”), a unique technical platform led by Roger Fox, our Head of ESG. With over 70 years of experience, TIP provides a deep bench of engineering, emissions, and overall company management expertise guiding technical execution and governance best practices.

Through these resources and our investment team, Tailwater is able to foster sharing of best practices through portfolio company interaction which we believe supports stronger ESG performance and higher exit value for our portfolio investments.

***ESG Integration***

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 the deal process with regular, two-way communication around ESG-related expectations between the Tailwater ecosystem and our management partners.

***Diligence & Underwriting***

All Tailwater portfolio investments are subject to robust diligence which covers a variety of environmental, safety, legal, accounting, tax, regulatory and HR aspects of a potential deal. Tailwater deal teams also conduct ESG baseline assessments of each potential investment meant to reveal ESG risks to be managed as well as potential opportunities for value creation linked to ESG, within the boundaries of our fiduciary obligations. These baseline assessments include a standardized set of ten (10) questions for any potential investment each of which is directly related to our Core Areas of ESG Focus as outlined below.

As an investment analysis continues, deal teams are required to come to the Investment Committee with a comprehensive, templated ESG-related diligence review. The focus of this diligence is a high-level gap analysis, identifying how a company’s ESG focus and KPIs mesh with Tailwater’s policies and approach. This later-stage screening includes a standard set of thirty (30) general questions which span our material areas of ESG focus as well as key ESG-related factors throughout the energy value chain.

In this phase of investment, our relationship with portfolio company management is crucial – both to our ability to seek and identify potentially attractive areas for investment as well as manage risks and opportunities related to ESG.

To formalize the ESG elements of this process, Tailwater created a proprietary ESG Playbook, which is shared with all portfolio company investments pre-acquisition to outline our approach to ESG, be transparent around expectations, and introduce the resources available to our portfolio companies to enhance each organization’s ESG profile as part of the Tailwater family.

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.

<b>Environmental</b>	<ul style="list-style-type: none"><li>▪ Scope 1 and 2 emissions reporting and evaluation of carbon footprint for identifying reductions</li><li>▪ Tracking and improving renewable power mix</li><li>▪ Active asset integrity processes and systems to prevent losses and protect biodiversity</li></ul>
<b>Social</b>	<ul style="list-style-type: none"><li>▪ Formal safety program and recording of key safety metrics</li><li>▪ Employee engagement through surveys, mentorship, volunteer initiatives and/or other programs</li><li>▪ Evaluation of demographics through entire recruitment process</li></ul>
<b>Governance</b>	<ul style="list-style-type: none"><li>▪ Formal Employee Handbook or similar, with at least once annual executive review and formal employee acknowledgement</li><li>▪ Executive compensation tied to ESG performance</li><li>▪ Robust cyber security program including regular training and system testing</li></ul>

Tailwater’s Investment Committee, comprised of our Managing Partners and Partners, participates in evaluating every deal – including these minimum ESG requirements.

#### *Hold Period through Exit*

Throughout our investment period, and with the foundations set by the ESG Playbook, we hold our portfolio companies accountable for managing environmental, social and governance risks and

opportunities. Tailwater’s ESG Playbook includes a template for quarterly reporting on the most material ESG factors for each portfolio company (see **Materiality** below) as well as noteworthy developments through our proprietary ESG Scorecard. The scorecard allows portfolio company management to prioritize the most critical and most material areas of ESG focus, helping management and Tailwater work together to track material ESG performance against the prior year and prior quarter to target ongoing improvement and lay the foundations for early identification of potential challenges.

In addition, portfolio company Boards are expected to track ESG objectives that each portfolio company determines to be important to the advancement of certain ESG factors within their business. Given the importance we place on ESG, executive compensation is also expressly tied to meeting these material ESG objectives. Together with the Tailwater investment team and Tailwater Innovation Partners, our portfolio partners are encouraged to seek improvement actively and consistently in their ESG-related performance to contribute to business resilience and value.

At exit, Tailwater’s focus is on having created longer-term company resilience and sustainability – in short, having “built better businesses.” Generally, we communicate around company growth, which incorporates so many of these ESG factors, in our sell side materials and communicate to third-party capital providers around a portfolio company’s ESG profile.

### ***Materiality***

Tailwater works hard to integrate ESG issues into our investment and corporate policies and practices, to the extent applicable. We encourage and expect our investment professionals to integrate ESG considerations into our due diligence, investment analysis and decision-making processes with the overall objective to identify material ESG issues that may impact valuation and financial performance.

We believe this 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. Thus, the Tailwater investment team and Tailwater Innovation Partners engages with each portfolio company around our Material ESG Areas, with a customized focus for each company.

## TAILWATER'S CORE AREAS OF ESG FOCUS



EMISSIONS / CO2  
AVOIDANCE



SAFETY



POWER SOURCES



RECRUITMENT



EFFICIENCY /  
UTILIZATION



DEMOGRAPHICS  
AND ENGAGEMENT



LEAK DETECTION



GOVERNANCE



CYBERSECURITY

We believe this engagement better positions Tailwater to achieve three main goals:

- Enhancement of each company's ESG performance to drive value
- Determination of best practices that can be shared within the Tailwater portfolio
- Ongoing refinement of Tailwater's ESG strategy

These Material ESG Areas were developed through a multi-stakeholder process, considering the best practices of our investment industries, existing ESG frameworks, a deep review of portfolio company policies and process, extensive portfolio company engagement, and Limited Partner engagement. 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.

### **Reporting**

Tailwater views responsible operatorship as a core value and seeks to report on ESG with transparency to our LPs and within our portfolio. We highlight ESG initiatives at our Annual Partner Meetings and report on ESG achievements and challenges to our Advisory Board. In addition, we report with regularity on ESG accomplishments and challenges throughout the active portfolio in quarterly updates to our Limited Partners.

Highlights of our developing ESG program as well as KPI performance for all of our active portfolio companies are further reported to our LPs through Tailwater's annual ESG Report. We are proud to provide key concepts of this report publicly on the firm's website to further act as stewards of best practice as it relates to ESG in the investment sector.

In addition, Tailwater Capital is a proud signatory of the UN-supported Principles for Responsible Investment (PRI), reporting annually within the framework of that commitment.

## ***Advancing Community Involvement and Diversity, Equity, & Inclusion (“DE&I”) at Tailwater and In Our Industry***

For Tailwater, ESG and DE&I are not merely programs, but deeply held philosophies. 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. 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. We track and categorize the charitable giving impact and man-hours dedicated.

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. Tailwater helps to fund the Women’s Energy Network Foundation through a grant of two annual scholarships to encourage minority and female participation in energy. In addition, Tailwater – led by a goal set by our ESG Steering Committee – is working with our recruiting partners in the industry to foster diverse candidate pools for our own team, with the ability to benefit from ever-broadening perspectives in our organization.

Overall, Tailwater is committed to creating and maintaining a workplace in which all employees have an opportunity to participate in and contribute to the success of the business and are valued for their skills, experience, and unique perspectives. This commitment is embodied as Company policy, including equitable benefits both to serve our team and attract talent, employee training around key DE&I considerations, and tracking and reporting of diversity information to drive a more inclusive company environment. In addition, Tailwater conducts a regular Employee Pulse Survey to identify the needs of our employee community and advance open dialogue.

### ***Conclusion***

This Policy has been reviewed and approved by the Tailwater ESG Steering Committee, and it will be reviewed and updated annually going forward. Tailwater is committed to keeping our Limited Partners and our team aware of any material developments in our Responsible Investment Policy to continue to optimize transparency and communication around key ESG considerations.

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