



## **RESPONSIBLE INVESTMENT POLICY**

*Updated: December 1, 2023*

### ***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 responsible investment 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 framework of responsibility.

This Policy seeks to define Tailwater's Responsible Investment 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 responsibility through both environmentally conscious investments and a core commitment to sustainability. Tailwater Capital and its affiliated companies are committed to an ongoing and long-term process of incorporating responsible operatorship 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, 2021, 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 sustainability philosophy and initiatives are led by our Responsible Investment 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 related considerations. The Committee provides guidance on such matters and performs an oversight role in shaping our Responsible Investment 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 Responsible Investment, 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 sustainability-related planning and strategy.



Tailwater’s Responsible Investment Steering Committee meets quarterly to review Tailwater’s Responsible Investment Policy and process, review portfolio resilience and highlight portfolio best practice, and set annual goals for 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 our investment strategy can positively impact key global issues. In our view, broadening our risk/return analysis for each portfolio investment to align financially material sustainability issues with the SDGs increases the contribution our firm can make while creating enhanced portfolio value.

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

 <p><b>6</b> CLEAN WATER AND SANITATION</p>	<p>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally</p>
	<p>6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity</p>
	<p>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p>
 <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>
	<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>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p> <p>9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</p> <p>9.4.1 CO2 emission per unit of value added</p>
<p><b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<p>12.2 <i>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> <p>12.4 <i>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>12.5 <i>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 resilience-related factors which may include safety, clean operations, regulatory risks and opportunities, and community engagement.

In addition to Tailwater’s senior-level support around responsible operatorship, our portfolio resources include Tailwater Innovation Partners (“TIP”), a unique technical platform led by Roger Fox, our Head of Responsible Investment. 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 greater responsibility and higher exit value for our portfolio investments.

### ***Sustainability 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 Responsible Investment considerations throughout the deal process with regular, two-way communication around 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 baseline assessments of each potential investment meant to reveal risks to be managed as well as potential opportunities for value creation linked to responsibility, 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 Responsible Investment Focus as outlined below.

As an investment analysis continues, deal teams are required to come to the Investment Committee with a comprehensive, templated responsibility-related diligence review. The focus of this diligence is a high-level gap analysis, identifying how a company's responsible operatorship 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 responsible investment focus as well as key Resilience 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 responsible investment.

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

While we will seek to engage throughout our partnership on sustainability 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.

## Environmental

- Scope 1 and 2 emissions reporting and evaluation of carbon footprint for identifying reductions
- Tracking and improving renewable power mix
- Active asset integrity processes and systems to prevent losses and protect biodiversity

## Social

- Formal safety program and recording of key safety metrics
- Employee engagement through surveys, mentorship, volunteer initiatives and/or other programs
- Evaluation of demographics through entire recruitment process

## Governance

- Formal Employee Handbook or similar, with at least once annual executive review and formal employee acknowledgement
- Executive compensation tied to responsibility performance
- Robust cyber security program including regular training and system testing

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

### *Hold Period through Exit*

Throughout our investment period, and with the foundations set by the Responsible Investment Playbook, we hold our portfolio companies accountable for managing environmental, social and governance risks and opportunities. Tailwater's Responsible Investment Playbook includes a template for quarterly reporting on the most material sustainability factors for each portfolio company (see **Materiality** below) as well as noteworthy developments through our proprietary Responsible Investment Scorecard. The scorecard allows portfolio company management to prioritize the most critical and most material areas of business resilience focus, helping management and Tailwater work together to track material environmental and social 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 responsible investment objectives that each portfolio company determines to be important to the advancement of certain sustainability factors within their business. Given the importance we place on responsible investment, executive compensation is also expressly tied to meeting these material objectives. Together with the Tailwater investment team and Tailwater Innovation Partners, our portfolio partners are encouraged to seek improvement actively and consistently in their sustainability-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 factors, in our sell side materials and communicate to third-party capital providers around a portfolio company’s responsibility profile.

**Materiality**

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

We believe this concept of “materiality” is important in that it directly links responsible investment 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 Responsible Investment Areas, with a customized focus for each company.

**TAILWATER’S CORE AREAS OF RESPONSIBLE INVESTMENT 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 sustainability performance to drive value
- Determination of best practices that can be shared within the Tailwater portfolio
- Ongoing refinement of Tailwater’s Responsible Investment strategy

These Material Responsible Investment Areas were developed through a multi-stakeholder process, considering the best practices of our investment industries, existing sustainability frameworks, a deep review of portfolio company policies and process, extensive portfolio company engagement, and Limited Partner engagement. Through the process of our Responsible Investment Steering Committee, Tailwater hopes to continue to refine these areas to advance the integration of responsible investment within our investment process and support a positive portfolio impact.

### ***Climate Risk***

We acknowledge that actions are needed to respond to the potential impacts of climate change and to create resilience throughout our business operations against the associated physical and transitional risks. At the same time, we also recognize the requirement for continued traditional hydrocarbon development as well as innovative energy and infrastructure solutions that meet the needs for accessible, affordable, and reliable energy. Guided by the recommendations of the **Task Force on Climate-Related Financial Disclosure (TCFD)**, we are taking action to build our governance, transparency, accountability, and strategy around these important considerations.

From a **Governance** perspective, our Responsible Investment Steering Committee engages with our investment team and TIP on the key factors outlined above. The broad composition of this Committee reflects our organizational buy-in around climate action and our commitment to demonstrable governance on the topics.

As an investment advisor with fiduciary obligations to our Limited Partners, our portfolio partners, and our communities of operation, we believe that **Risk Management** is critical. Our investment diligence considers physical climate risks as well as those posed by evolving legislative and regulatory landscapes.

The impact of this risk management and the opportunities identified throughout our investment cycle are captured in the **Metrics and Targets** of our KPI survey. These KPIs include Scope 1 and Scope 2 greenhouse gas (GHG) emissions across our portfolio and at the corporate level.

Going forward, we aim to continue to enhance our **Strategy** around climate risk, and we are evaluating the incorporation of climate transition risk and opportunities in our investment process.

### ***Reporting***

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

Highlights of our developing responsible investment program as well as KPI performance for all of our active portfolio companies are further reported to our LPs through Tailwater's Annual Responsible Investment 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 responsibility 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, responsible investment 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 Responsible Investment 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 Responsible Investment 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 sustainability considerations.

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