RM INFRASTRUCTURE INCOME: IMPACT UPDATE

RMFunds™
The art of investment

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INTRODUCTION

RM Infrastructure Income PLC (RMII, the 'Company') seeks to deliver triple bottom line benefits, targeting income returns from private credit investing combined with social and environmental impact for people and planet.

RMII addresses the 'missing middle' of financing for SMEs and mid-market corporates who can contribute to achieving the UN Sustainable Development Goals (SDGs), but whose borrowing requirements – typically in the £5-10 million range – are often too complex for traditional banks and too small for institutional funds.

While lending over relatively short time horizons, with an average life of just under 3 years, RMII funding aims to be catalytic, financing social and environmental infrastructure assets. These include affordable housing and accommodation; childcare and education; health and social care; and energy, recycling, waste and sustainable water solutions.

AN ORIENTATION TOWARDS IMPACT

RM Funds believes that to create sustainable value for investors, borrowers need to have robust and effective management of relevant environmental, social and governance (ESG) issues.[1] RM Funds has been a signatory to the UN Principles for Responsible Investment since 2019 and is committed to upholding those principles.

In line with investor interest and RM Fund's ethos of investing in businesses with strong underlying potential, RM Funds committed to focus RMII entirely on opportunities that can have wider societal benefits and to allocate capital to these areas via positive screening and active investment management.

Accordingly, RM Secured Direct Lending PLC changed its name to RM Infrastructure Income PLC in July 2021 as part of its strengthened orientation towards positive impact creation. Having had a generally agnostic sectoral lending approach since inception in 2016, the investment strategy is now more targeted on social and environmental infrastructure.

RMII's impact priorities were determined by looking at the SDGs in a UK context to identify important societal needs, and then linking these to investable opportunities in the private credit space associated with social real estate and environmental sustainability. This led to a focus on six specific Impact Objectives, against which portfolio impact performance can be assessed and towards which the investments can be managed.

KEY FIGURES as of 30th July 2021

£130.70 million of investments across a diversified portfolio of 34 investments

2.65 years average life of investments

25% of loans (by GAV) through the Coronavirus Business Interruption Loan Scheme (CBILS)

£289.75 million invested since launch; capital recycled 1x

1. RM Funds is the investment manager for RMII. Founded in 2010, with offices in Edinburgh and London, RM Funds manages capital on behalf of institutional investors, multi-asset allocators, wealth managers and retail investors. RM Funds focuses on real asset investing across liquid alternatives and private markets. RM Funds is a delivery partner to the British Business Bank in connection with the Coronavirus Business Interruption Loan Scheme. Information in this Impact Update is subject to change resulting from new developments, facts and/or research. This document was prepared by RM Funds with inputs from the Company's impact assurance and reporting partner, The Good Economy. The Good Economy is not regulated by the FCA but this document has been approved as a financial promotion for the purpose of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") by RM Capital Markets Limited, which is authorised and regulated by the Financial Conduct Authority under reference number 562209. RM Funds is a trading name of RM Capital Markets.

THEME / TARGET SDGS	CHALLENGES	SECTORS WITH INVESTABLE OPPORTUNITIES	RMII IMPACT OBJECTIVES
Social infrastructure			
3 GOOD HEALTH AND WELL-BEING	The UK is facing a growing and ageing population, combined with the increasing burden of behavioural and lifestyle diseases.	Healthcare; Health Fitness and Leisure; Aged care	Improving quality and accessibility of health and social care services
4 QUALITY EDUCATION	More needs to be done to close the attainment gap between disadvantaged young people and adults and their more affluent peers. The UK also needs to raise the quality and perception of technical education to match academic education to ensure the economy has a skilled workforce to support it in the future.	Childcare; Education	Improving quality and availability of childcare and education services
11 SUSTAINABLE CITIES AND COMMUNITIES	Data estimates the UK has 1.2 million fewer homes than it needs (given demand), and the need for more homes is increasing. This suggests it will take at least 15 years at current building rates to close the gap, and that not enough of what is being built is affordable.	Student Accommodation; Affordable housing; Private Rented Sector	Improving supply of quality, affordable housing and accommodation
Environmental infrastructure			
7 AFFORDABLE AND CLEAN ENERGY	In terms of tackling climate change (SDG13) and the provision of sustainable energy (SDG 7), the UK needs to make significant strides in decarbonising its economy, including by cutting emissions from transport, and improving the energy efficiency of homes and buildings.	Clean energy and renewables	Improving availability of sustainable energy solutions
13 CLIMATE ACTION		Energy efficiency and carbon reduction	Improving sustainability of buildings and transport
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	To build a future circular economy based on more sustainable consumption and production patterns (SDG 12), more needs to be done to preserve material resources by minimising waste.	Waste management	Improving recycling, waste and sustainable water use solutions

The key differentiator of an impact strategy is the desire to cause 'real world' change – separating it from other responsible investment approaches that seek to integrate ESG factors to mitigate financial risks. Impact, therefore is the intention to make a difference to social and environmental outcomes, and to measure and monitor contribution towards these outcomes.

RMII uses three impact levers through its investment strategy, as shown in the figure on the right.[2]

Investment

Directing capital towards companies with sound business models and strong management teams with the potential to serve needs defined by the SDGs. RMII provides financing to support the growth and development of these businesses.

Engagement

Supporting borrowers to document, monitor, measure and make improvements in their environmental and social performance. RMII influences and incentivises change by embedding impact considerations and performance requirements within loan documentations, including by covenants related to borrower performance on core ESG practices, as well as sustainability-linked loans.

Signalling

Signalling the importance of impact integrity to the market by adopting best practice impact measurement and providing full transparency on impact performance. In this way, RMII aims to contribute to raising standards of impact management and reporting across the private credit sector.

2. Adapted from Kölbel JF, Heeb F, Paetzold F, Busch T. Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact.

The new impact focus has been embedded across RMII's investment process. As outlined in Box 1, the fund adopts frameworks such as the **Impact Management Project** as part of a robust methodology for measuring, managing and reporting both on the impact of investments made, and the fund's contribution towards these impacts. At the heart of RMII's impact measurement system is the Positive Impact Score, which captures and quantifies the extent to which investments are likely to contribute to improved outcomes.

IMPACT MANAGEMENT PROJECT

The **Impact Management Project (IMP)** is a forum for building global norms to help enterprises and investors understand their impacts on people and the planet.

The Positive Impact Score is informed by an assessment of:

- **Environmental and Social Outcomes associated with borrowers.** This is based on IMP dimensions related to the number of outcomes supported; the depth, duration and scale of these outcomes; and how under-served stakeholders are in relation to the outcome.
- **Impact Strategy Ratio.** This reflects the extent to which a business model is geared towards delivering positive outcomes in line with the SDGs.
- **The Capital Impact Ratio.** This reflects RMII's contribution to the impact achieved, using the IMP guidance on investor contribution to assess whether borrowers would have achieved outcomes irrespective of funding, or was RM investment a direct catalyst.

BOX 1: IMPACT MANAGEMENT AND MEASUREMENT

Impact Measurement and Management (IMM) is the process by which investors can understand the effects of their investments on people and the environment and then take action to adapt processes and improve outcomes.[3]

RM Funds has developed a bespoke IMM framework to align with international approaches to impact measurement, including the Impact Management Project. The IMP helps cut through the jargon of sustainable investing to focus on real-world implications, describing impact through an analysis of five dimensions: **Who** is being impacted, in **what** way, by **how much**, the **contribution** of the organisation to the change in outcomes and the **risk** of outcomes not being met.

Key IMM elements have been embedded by RMII throughout the investment process, as summarised in the figure below.

How does RMII lend to impactful companies?
Impact screening

- Negative screening excludes potential investments in prohibited sectors.
- Positively screen investments to allocate capital towards businesses that focus on achieving the fund's Impact Objectives, which are aligned with needs defined by the SDGs.
- Assess a potential borrower's ESG performance against a set of core metrics drawn from recognised ESG frameworks and sector-specific standards in order to check whether companies have responsible business practices across their operations and to provide a baseline for potential future improvements in ESG performance.

How does RMII assess a company's contribution to impact creation?
Impact scoring and metric selection

- Calculate a positive impact score to capture and quantify the extent to which investments are likely to contribute to improved outcomes.
- Verify impact thesis during due diligence using company data and evidence-based research. Engage with third parties to conduct ESG focused diligence where required.

How can RMII hold investees to account for impact?
Impact monitoring and management

- Deploy covenants, write impact requirements into loan documentation and provide sustainability-linked loans.
- Implementation of identified ESG measures and action points.
- Use portfolio ecosystem to take advantage of potential synergies and support investee companies.
- Ongoing assessment of impact of these measures, with an annual update to each company's Positive Impact Score.
- Monitoring of any 'mission creep' in business activity that is at odds with the SDGs and internal screening processes.

How does RMII hold itself accountable for impact?
Impact reporting

- External assurance of the RMII impact management system against good practice frameworks such as the IFC Operating Principles.
- Annual independent impact reporting conducted by a third-party impact adviser to allow both shareholders and stakeholders to monitor whether their expectations are being met.

SPOTLIGHT ON IMPACT OPPORTUNITIES IN PRIVATE CREDIT

Smaller and mid-market businesses are a core driver of employment and innovation in the UK and play a critical role in contributing to inclusive and sustainable economic growth. SMEs alone account for over 99% of all businesses, 60% of employment and half of all business and industry-related greenhouse gas emissions.

In sectors and businesses that are aligned with the SDGs, companies can increase the scale, depth and duration of their impact if they are able to access appropriate capital. Currently, however, many businesses are underserved by high street banks as their lending tends to be standardised and non-flexible. As a result, according to the British Business Bank, "private debt is often the only, or most viable funding solution for…firms who require flexibility in terms of a financing structure".[4]

Private lenders with individual borrower relationships are well positioned to provide capital that can achieve a positive impact on people and the planet as deals can be adapted to the specific requirement of borrowers. This type of bespoke financing is particularly important as companies face up to the challenges of the COVID-19 pandemic.

Private debt can also contribute to addressing regional inequality in the UK in the context of the agenda to 'level up' opportunities across the UK. Debt deals mainly take place outside of the capital, unlike some other segments of the alternative investment space – such as venture capital – that tend to be concentrated in London. Research shows that four in five deals and nearly two thirds of the £18.4bn of private debt provided to companies in both 2018 and 2019 was outside London.[5]

3. Drawn from Rockefeller Philanthropy Advisors, Impact Investing Handbook: An Implementation Guide for Practitioners.
4. UK Private Debt Research Report 2020 – British Business Bank.
5. Ibid.

PORTFOLIO UPDATE

RMII's strategy for creating intentional impact uses the IMP's "ABC" framework to classify whether investments are 'Avoiding harm' to mitigate negative social or environmental effects; 'Benefiting stakeholders' to favour socially and environmentally sustainable outcomes; or 'Contributing to solutions' that address the greatest societal needs.

Acts to avoid harm

Lend to enterprises that **act to avoid harm** to stakeholders, for example decreasing their carbon footprint or paying a living wage.

Aim: Improved core ESG performance.

Note: Business activities many not (yet) be directly aligned with positive outcomes – but pathway identified for aligning with target SDGs.

Benefits stakeholders

Favour enterprises that actively **benefit stakeholders**, for example selling products that support positive health or educational outcomes.

Aim: Deliver core social and environmental infrastructure aligned with SDG outcomes.

Contributes to solutions

Investing in enterprises that are using their full capabilities to **solving pressing social or environmental problems** facing an underserved population or unmet needs.

Aim: Directly contributing to achieving SDGs by providing social and environmental infrastructure targeting those places and people with the greatest needs.

As noted in a recent article in Impact Alpha, the ABC framework is not "a value judgement [but]...what matters is an investor's ability to accurately discern and describe the full scope of its impacts" across the spectrum.[6]

RMII aims to tilt its investments towards mainly 'B' and 'C' deals over time, but recognises different ways for the fund to be impactful - depending on the nature of the social and environmental outcomes associated with a potential borrower.

The Good Economy, a specialist impact advisory firm, reviewed RMII's portfolio impact alignment shortly after the name change. A baseline assessment and portfolio impact score was provided to track future progress towards RMII's intensified focus on social and environmental outcomes.[7]

As of the end of April 2021, 17 out of 43 investments - or 46% of the portfolio by value - aligns with RMII's new target sectors and impact objectives. Figure 1 shows the breakdown by the ABC typology.

RMII has already made progress since the announcement of the refined investment focus and expects to make further strategic progression over 2021 to reduce exposure to non-aligned sectors such as leisure and business services, re-deploying into healthcare, childcare and accommodation, along with environmental assets.

Moving forward, RMII's impact performance will be independently assured and reported on an annual basis (see Box 2). Presently, RMII provides exposure to a blend of new impact-focused deals alongside previous investments made utilising a negative screening process: The extent of the rotation and quality of application of RMII's new impact strategy will be examined and disclosed on a yearly basis through the impact reporting.

Figure 1. Portfolio breakdown by the 'ABCs' of impact

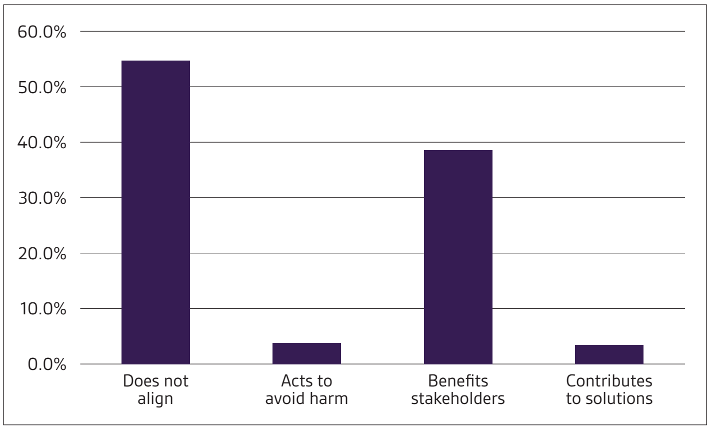


Figure 2: Percent of the portfolio contributing to target SDGs

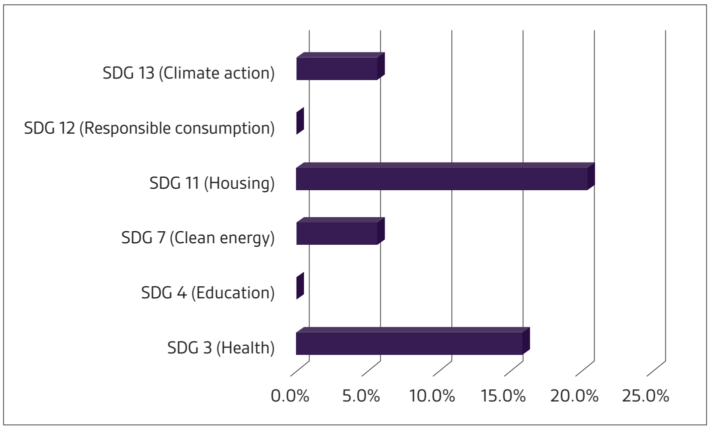
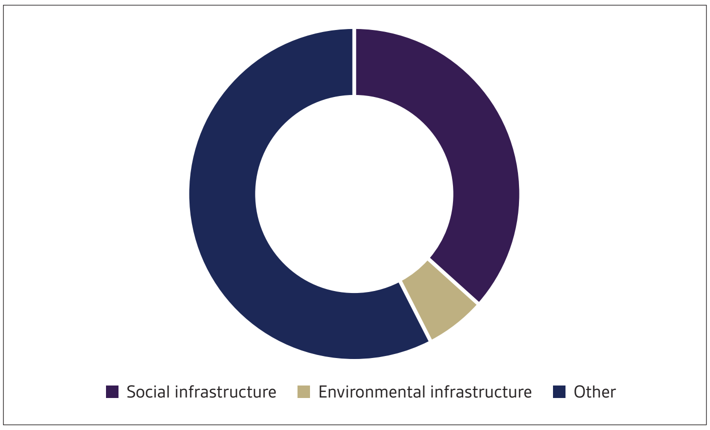


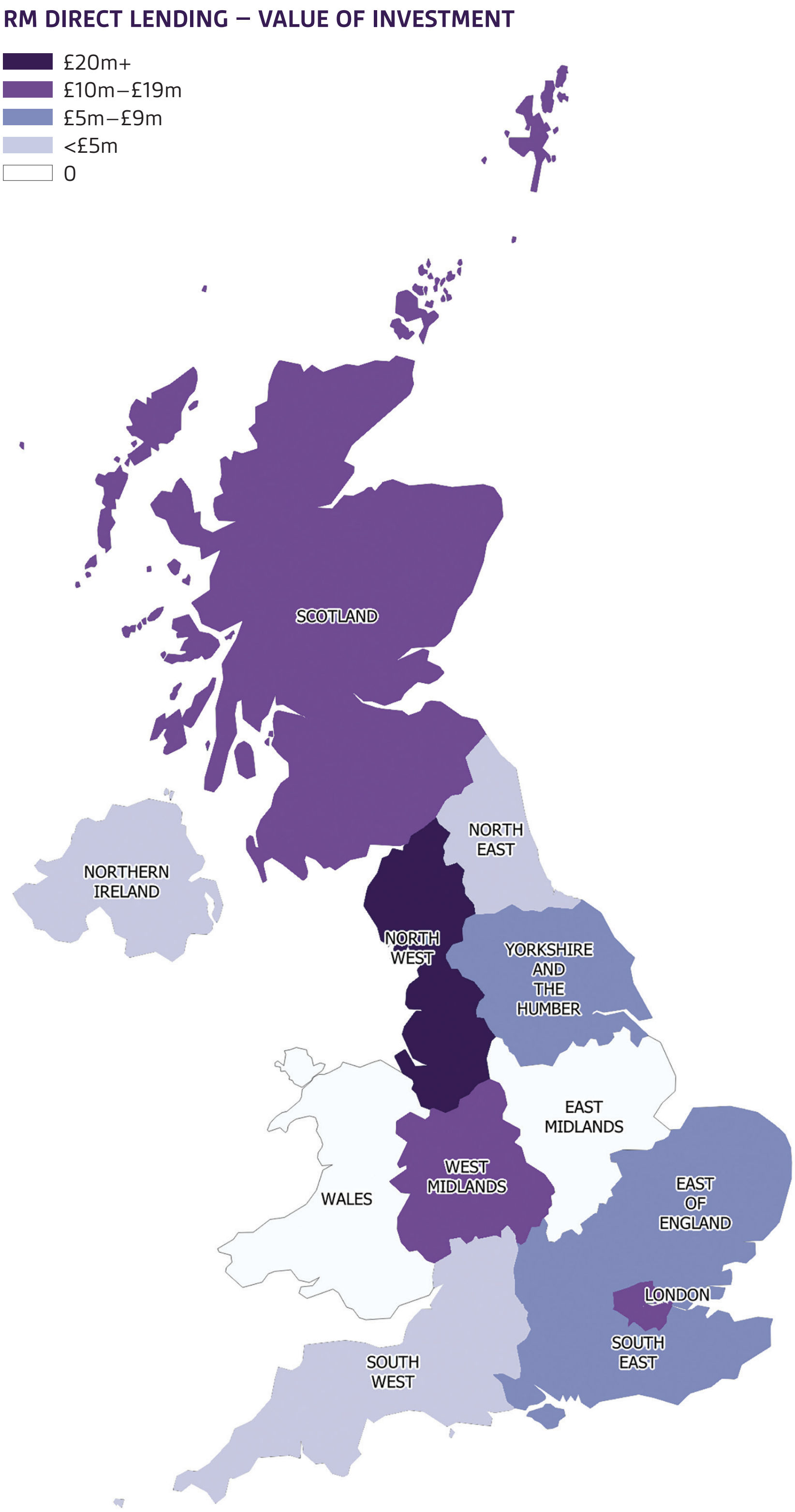
Figure 3: High level summary of the proportion of the current portfolio by impact theme (by par value)



RMII is more regionally distributed across the UK than the average private debt fund. 90% of capital invested in the UK is outside of London compared to the industry average of 65%.[8]

6. https://impactalpha.com/the-abcs-and-sdgs-of-classification-for-impact-investing-strategies/
7. Recognising that there was no explicit impact intentionality at the time these investments were made. Accordingly, this alignment should be interpreted as a way of benchmarking future impact performance rather than as commentary on past performance.
8. 2018/19 data as used in UK Private Debt Research Report 2020, British Business Bank. The RMII portfolio has been mapped by registered office which may not reflect the full geographical footprint of company products, services and operations. Of the investments in the UK, the share of London-based companies in the portfolio is 13.3%, and the share of Par value by London-based companies is 9.5%.

Figure 4: Geographic footprint of RMII portfolio by value of investment[9]



BOX 2: DRIVING IMPACT INTEGRITY

RMII is committed to providing high levels of transparency through ongoing performance reporting to share regular information on how the fund is meeting its stated impact objectives. Reporting is led by the fund management team and overseen by the internal ESG committee and the board. Third-party authored annual impact reports are produced and published in the public domain by the fund's independent assurance and reporting partner, The Good Economy, seeking to provide a fair, balanced and understandable assessment of the fund's impact.

In addition to reporting annually on impact performance, The Good Economy will also provide RM Funds with third-party assurance of RMII's IMM framework. RM Funds believes that independent oversight of the impact management process can boost impact integrity and help ensure the IMM framework continues to be aligned with internationally recognised standards and initiatives. This is particularly important as impact data can be imprecise and imperfect due to the complex nature of social and environmental outcomes – especially when involving SME and mid-market investees whose experience of and capacity for data collection and analysis of environmental and social issues may be limited.

9. Note: The map accounts for 86% of the investments. 14% of loans are to businesses headquartered outside of the UK.

CASE STUDIES[10]

CASE 1: ATHENA HEALTHCARE		SUSTAINABLE DEVELOPMENT GOALS
Impact objective:	Improving the quality and accessibility of health and social care services	3 GOOD HEALTH AND WELL-BEING
Committed:	£13 million	

IMPACT THESIS

Improving the availability of quality care and support services for the elderly.

THE CHALLENGE

UK has an ageing population, with a projected one in four people set to be aged 65 and over by 2039. This will place growing pressure on the elderly care sector, requiring significant additional residential capacity as demand for social care rises significantly.

Over the past decade a "downward trend in the registration of new care homes, combined with an upward trend in closures has resulted in a net reduction in the number of beds" available for the elderly across the UK.[11] Many properties are old, and even refurbished stock risks becoming obsolete as demand for innovative, higher quality retirement living solutions continue to push up the average home size.

There are currently few lenders who are willing to offer secure yet flexible funding terms for new care home construction. However, once constructed the assets are very 'bankable' with many funding sources available to borrowers. There is therefore a material funding gap for these type of social infrastructure assets – a gap which RMII proactively seeks to address.

HOW ATHENA HEALTHCARE BENEFITS STAKEHOLDERS

Launched in 2011, Athena Healthcare aims to provide modern, high quality residential and nursing care homes in the UK. It offers a bespoke service by working closely with families to deliver care tailored to individuals' needs.

In 2020 Athena secured planning permission for a new purpose-built 205-bedroom care village in Lancashire. After construction commenced late in the year, the borrower required debt capital to complete the works. RM Funds committed a £13 million loan, allowing the project to proceed.

"Working with RM Funds as a partner for this project allows us to deliver an additional modern purpose-built accommodation for the people of Lytham (and beyond) and their families. Furthermore, their unique bespoke approach and core knowledge of the UK aged-care sector has made this competitive funding transaction process smooth and efficient."

– Steven Wylie, Managing Director of Athena Healthcare Group

What outcomes?	Improved quality of health and social care services.
Who experiences the outcomes?	Privately funded retirement-age residents from Lytham St Annes and surrounding villages. The area has a much higher proportion of residents aged 65 and over than the national average. However, it is a relatively affluent area and the development is not likely to meet the needs of under-served communities. While data points to an oversupply of care homes in the catchment area, many of these care homes offer lower quality accommodation with small room sizes and lacking wet rooms.
How much change takes place?	When complete, 205 single occupancy rooms all with a floor area almost double the minimum requirement of the Care Quality Commission.
Contribution by RMII	Debt finance for projects such as Athena's is limited. Traditional lenders are often unwilling to provide project financing during the construction phase as debt can only be serviced once facilities are operational. RMII provided a bespoke development loan facility on a senior secured basis with a 3-year term.

10. While these cases are based on current loans within the RMII portfolio, they should be read as illustrative of future deals that may be made under new investment strategy, rather than as representative of the portfolio's overall impact.
11. https://www.nuffieldtrust.org.uk/resource/care-home-bed-availability#background

CASE 2: QUIMERA ENERGY EFFICIENCY		SUSTAINABLE DEVELOPMENT GOALS
Impact objective:	Improving the sustainability of buildings and transport	7 AFFORDABLE AND CLEAN ENERGY; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
Committed:	£500k	

IMPACT THESIS

Technology-driven solutions to improve the energy efficiency of real estate assets by creating energy savings, reducing costs, and lowering emissions.

THE CHALLENGE

Climate change is one of the most pressing global issues, with the world off-track in the effort to keep global warming at or below 1.5°C, as called for in the Paris Agreement. Urgent action is needed to curb emissions and shift economies towards carbon neutrality, including by improving energy efficiency rates for homes and businesses.

Improving the energy efficiency of buildings not only cuts emissions, it can also help cut energy bills. Currently, the hotel sector accounts for around 1% of global carbon emissions and is projected to increase.[12]

HOW QUIMERA CONTRIBUTES TO SOLUTIONS

Founded in 2015, Quimera focuses on energy efficiency and optimization for the real estate industry and hospitality sector by using advanced technology and Smart building tools to offer energy saving solutions through consulting, deployment, and monitoring services.

Uniquely, Quimera also aims to deliver savings with no investment by its clients. It presents this as the world's first energy efficiency model that focuses on optimising existing facilities entirely under performance-based schemes: if no savings are achieved, no fees apply for the client.

While below RMII's target size loan, the positive screening process brought the transaction into the fund's pipeline. Quimera required funding to diversify away from the hospitality sector and to address delays to the start of new projects caused by pandemic-related factors.

"Energy efficiency is the best way we can help carbon reduction on the journey to net zero and therefore [this was] a very attractive transaction for us to undertake."
– James Robson, RM Funds

What outcomes?	Reduced energy consumption through smart building technologies.
Who experiences the outcomes?	Quimera is currently focused on the hospitality sector. Many of the largest hotel chains worldwide use Quimera Energy to improve their energy consumption and efficiency and meet sustainability-related goals.
How much change takes place?	Since its foundation, the company has successfully completed approximately 80 projects. In 2018 Quimera Energy Efficiency and Hyatt won the AEE's Western Europe Region Energy Project of the Year Award for the Andaz London Liverpool Street hotel. Within a year of starting the project, the hotel had reduced its electricity and gas consumption by 21% and 27%, respectively – equating to 500,000kg of CO2 emissions.
Contribution by RMII	RM Funds provided a £500k bespoke bilateral loan through the CBILS to allow the company to materialise part of its significant pipeline despite the COVID-19 pandemic and without straining an already tight liquidity position with interest payments.

12. https://sustainablehospitalityalliance.org/our-work/climate-action/