STRICTLY CONFIDENTIAL

Environmental, Social and Governance (ESG) Investment Risk Management Policy

Arcmont Asset Management

Latest Update: July 2021

1. Introduction

Arcmont has a fiduciary duty to act in the best interest of its clients and manages its clients' assets with the objective of achieving optimal returns consistent with their investment objectives. For this reason, Arcmont integrates Environmental, Social and Governance ("ESG") factors into its investment risk management framework.

This policy document outlines the extent and process of Arcmont's ESG investment activities. The objective is to provide transparency around Arcmont's ESG beliefs and investment approach, while also serving as a formal guideline to its readers. This policy applies as standard to all investments made by Arcmont's co-mingled funds as well as by its separately managed accounts.[1]

1.1 Material ESG Investment Risk Factors

Financially material ESG investment risk factors are E, S and G factors that may significantly influence a borrower's financial performance or ability to meet its financial obligations in the long term. The materiality of ESG factors will vary for most investees as it depends on specific characteristics such as its industry exposure and business model. Examples of each type of ESG investment risk are detailed below.

Environmental	Social	Governance
Concerns about the physical consequences of climate change resulting in new regulations and technological changes which could leave some business activities (such as those linked to the fossil fuels industry) at risk of becoming 'stranded'	Evidence of illegal or unethical human rights, modern slavery & unsafe practices in supply chains could represent a supply risk for retailers in terms of regulatory action, and negatively impact their brand and reputation leading to consumer boycotts	Lack of appropriate board oversight and decision-making structures by company management could undermine investor confidence and trust

1.2 ESG Investment Philosophy

Arcmont aims to deliver attractive risk-adjusted returns for its clients over the long-term. In order to achieve this objective, Arcmont's investment approach is driven by the following strategic investment principles:

- Focus on capital preservation and downside protection
- Control of or having significant influence over loans
- Proprietary origination network
- Rigorous due diligence and investment processes
- High contact post-deal monitoring

[1] Investors in Arcmont's separately managed accounts can elect to have additional ESG investment restrictions.

Arcmont believes that ESG factors can have a material impact on a borrower's long-term financial performance. Poorly managed ESG risks can lead to inefficiencies, operational disruption, litigation, and reputational damage, which may ultimately impact a borrower's performance or ability to meet its financial responsibilities. Combining traditional financial analysis with ESG-related management practices and ESG performance reporting is therefore not only prudent, but also in line with Arcmont's fiduciary duty to optimise investor returns.

1.3 ESG Investment Risk Related Policies

Arcmont is committed to being transparent about the ESG related aspects of its investments and has recently enhanced its ESG Exclusions Policy which is available here.

2. Arcmont and the Sustainable Financial Disclosures Regulation

In line with the language used by the Sustainable Financial Disclosures Regulation, this policy describes:

1. How sustainability risk factors are integrated into Arcmont's investment decisions;
2. How the principal adverse impacts of investment decisions on sustainability factors are considered in Arcmont's investment decisions; and
3. How the Arcmont funds can promote environmental or social characteristics through the implementation of the Environmental and Social Target Improvement Plan.

Note that throughout the remainder of this document, we refer to sustainability risks and the principal adverse impacts of investment decisions on sustainability factors under the umbrella term of 'ESG investment risk factors'. This simplifies the language of the document but also underscores Arcmont's belief that principle adverse impacts represent ESG risks and therefore investment risks. Arcmont considers ESG investment risk factors at every stage of the investment process as described in the following section. In addition, all funds that are marketed after 01 March 2021 have the potential to promote ESG characteristics through the implementation of the Environmental and Social Target Improvement Plan and therefore may report against article 8 of the regulation.

3. ESG Investment Risk Management Approach

Arcmont has a long-standing history of incorporating ESG into its investment risk processes. The firm has been a member of the UN-supported Principles for Responsible Investment (PRI) since July 2013, when it was part of BlueBay Asset Management and since December 2019 as Arcmont Asset Management Limited.

The Private Debt team has operated a formal ESG investment risk process since 2013, with the latest enhancements being rolled out in March 2021. Arcmont's ESG investment risk process has transitioned from a qualitative approach to a combined approach with both quantitative and qualitative reporting and monitoring. This has resulted in enhanced ESG reporting for investors. Arcmont's ESG investment risk management framework incorporates a range of ESG investment strategies, across a formal framework for assessing ESG investment risk. These strategies are detailed in the following sections and include ESG negative screening, ESG integration, ESG engagement and monitoring, ESG reporting and ESG advocacy.

3.1 Overview of Arcmont's ESG Investment Risk Management Approach

ESG Negative Screening	ESG Integration	ESG Engagement & Monitoring	ESG Reporting	ESG Advocacy
Arcmont applies an ESG Exclusions Policy to all co-mingled funds and associated vehicles. The policy effectively describes the boundaries of Arcmont's responsible investing universe.	ESG is a fundamental part of Arcmont's investment process. ESG considerations are included in pre-investment analysis and post-investment monitoring.	Arcmont covers ESG topics in all its engagement activities. E&S performance targets are assigned and milestones are assessed. Proxy voting activities also include ESG considerations.	Arcmont provides transparent reporting on ESG matters at company and fund level. This includes, by company, ESG Investment Impact Scores, updates on ESG Monitoring Areas and milestones achieved under the E&S Target Improvement Plan.	Arcmont is committed to collaborating with others on ESG and promoting best practice regarding the incorporation of ESG into investing.
Pre-Investment	Post-Investment			Ongoing

3.2 ESG Negative Screening

Arcmont believes that some activities by virtue of their nature are fundamentally at odds with our responsible investment objectives. We therefore elect to screen borrowers operating in such areas from all of our investment activities. In addition to ensuring Arcmont's investment practices follow all applicable laws, regulations, and economic sanctions, Arcmont adheres to an ESG Exclusions Policy. The policy provides a list of the industries and products that are deemed to be outside of the responsible investment universe such as controversial weapons, tobacco, adult entertainment, and other controversial industries. The policy also excludes borrowers that violate the principles of the UN Global Compact.

3.3 ESG Integration

The key principle of Arcmont's ESG integration strategy is the consideration of ESG factors at every stage of the investment process, from pre-investment analysis through to post-investment monitoring and reporting as follows:

Pre-Investment Analysis

1. Preliminary Investment Memorandum

- Qualitative summary of any actual or potential ESG issues requiring further diligence
- KKS Advisors are engaged as specialist consultants where the Investment team require advanced ESG due diligence at the outset

2. Final Investment Memorandum

- Qualitative summary of diligence on the ESG risks identified in the preliminary investment memorandum
- In-depth quantitative analysis which assesses E, S & G risk exposures and how they are managed, in addition to their potential investment impacts. This assessment results in three standalone pillar scores:
  - Environmental Investment Impact Score
  - Social Investment Impact Score
  - Governance Investment Impact Score
- The pillar scores are then aggregated to derive an overall ESG Investment Impact Score
- Revenue-based UN Sustainable Development Goals alignment analysis
- Preliminary E&S targets identified for E&S Target Improvement Plan which are agreed with the company post signing
- KKS Advisors perform an independent review of every FIM after Deal Approval Committee approval

3. Deal Approval Committee

- Deal Approval Committee is a sub-committee of the Risk Committee which must approve all deals
- No investment can be executed without Deal Approval Committee sign-off
- A Deal Approval Committee checklist containing specific questions on ESG is reviewed by the Committee as part of their approval process

Post-Investment Monitoring

4. Quarterly Internal Monitoring

- The Arcmont Investment team maintains a constant and regular dialogue with management teams and sponsors/owners of businesses to monitor any ESG factors or developments
- Regular review of milestones achieved against E&S Target Improvement Plan by reviewing disclosures on agreed metrics
- ESG commentary for each investment is included in the internal quarterly monitoring packs which are reviewed by both the Investment Committee and the Portfolio Monitoring Committee

Post-Investment Reporting

5. External Quarterly Reporting

- This includes, by investment:
  - ESG Investment Impact Scores
  - Updates on ESG Monitoring Areas identified over the course of our investment
  - Details on the E&S Target Improvement Plans and related achievements
  - Alignment to the UN Sustainable Development Goals
- Summary ESG characteristics of the fund
- Any material ESG events that have occurred in the relevant period will be disclosed here

6. External Annual Reporting

- This is an extension of the quarterly report and includes additional detail on:
  - ESG activities undertaken in the year
  - ESG developments
  - Instances where ESG factors materially impacted investment decisions

3.4 ESG Monitoring and Engagement

Environmental & Social Target Improvement Plan ("E&S TIP")

Arcmont believes that providers of debt have a role in engaging with borrowers on matters that have the potential to impact investment returns. These matters include ESG risks. Arcmont believes that companies that are actively working to identify, measure and manage their ESG risks are inherently less risky and therefore a successful engagement that reduces risk should be reflected in the risk premium. As such, Arcmont has developed a voluntary E&S TIP to incentivise improved management of environmental & social risks amongst corporate borrowers. This process is summarised below. Note the plan focuses on environmental & social risks only as governance risks are the primary focus in the ordinary course of our business.

Step 1: **Identify potential E&S targets for the TIP**	▪ E&S risks are identified as part of the normal ESG integrated pre-investment diligence process ▪ Areas for improvement are identified for borrowers based on the identified risks. A focus will be placed on the most material E&S risks ▪ KKS independently reviews all relevant materials to ascertain whether the areas for improvement are appropriate for the E&S TIP
Step 2: **Engage and set improvement targets**	▪ Arcmont engages with the borrowers to gain a detailed understanding of the E&S risks identified ▪ Together, the borrower and the Investment team will select one E or S risk to focus on over the period of Arcmont's investment to set progressive targets against. Arcmont believes that a more meaningful change can be realised when focusing on just one risk ▪ Once the risk has been selected, an evaluation is conducted to assess the borrower's management of the risk. The evaluation places the borrower into one of four commitment levels. – Level 0: No Acknowledgement – Level 1: Commitment – Level 2: Tracking & Disclosure – Level 3: Performance Improvement ▪ The identified level is used to determine the ambition of the improvement targets. ▪ In total, three progressive targets will be agreed as well as a metric by which to measure progress towards the target and a realistic timeframe in which to achieve them
Step 3: **Financially incentivise E&S performance**	▪ Borrowers receive a 2.5 basis-point reduction in margin as and when a target is met ▪ Over the life of the loan, a borrower can achieve a maximum reduction of 7.5 basis-points on their margin ▪ Performance is monitored through regular reporting and ongoing dialogue with management, and is independently reviewed by either KKS or another appropriate entity

Note that in some instances, the nature and industries of some of our borrowers may mean they do not face material environmental or social risks, or only face risks that are not deemed appropriate for the E&S TIP. In these cases, Arcmont will encourage the promotion of wider environmental or social issues that generate meaningful benefits to society.

While the ESG topics for targets will vary depending on which ESG issues are identified as financially material for a corporate borrower, below is a list of common environmental and social issues Arcmont will typically consider to identify risk exposure across a company's value chain, and therefore set performance targets against.

Environmental and Social Issues
Greenhouse Gas Emissions
Energy Management
Toxic Emissions and Waste Management
Biodiversity and Land Use
Water Stress
Employee Wellbeing, Health and Safety
Labor Practices
Diversity and Inclusion
Human Capital Development
Access and Affordability
Selling Practices and Product Labeling
Customer Privacy and Data Security
Product Quality and Safety
Community Relations & Human Rights
Product Design and Lifecycle Management
Supply Chain Management (of Environmental and Social issues)
Business Model Resilience
Material Sourcing and Efficiency

Dialogue

Arcmont maintains a dialogue with borrowers in order gain a deeper insight into their ESG policies and practices, to monitor material ESG risks, and for the relevant investments, to ensure adherence to the E&S TIP.

Arcmont may also initiate dialogue with borrowers on ESG matters resulting from an external event or development. We may conduct such activities on an individual basis and/or work in collaboration with other investors or key stakeholders.

For the relevant investments, Arcmont will engage with corporate borrowers to track progress against the agreed E&S TIP, requesting thorough information and data showing that E&S commitments made by portfolio companies in exchange for a financial incentive are upheld. Adherence to E&S targets is then reviewed by an independent third-party determined by the information provided. During the post-investment phase, Arcmont continues to engage corporate borrowers to review and update E&S targets upon achievement of the terms set out in the pre-investment phase. In the event a portfolio company raises a concern about any of their targets, Arcmont is committed to assisting management in any way that is deemed appropriate.

Proxy Voting

Given Arcmont's focus on direct lending, there is limited scope to participate in proxy voting. However, this does occur in instances where investments take on an equity element and we are assigned voting board seats, or in situations where we acquire equity as part of a financial restructuring as a result of business underperformance. In such cases, where Arcmont becomes a shareholder with formal voting rights, we ensure we make appropriate use of our votes on matters of corporate governance and environmental and social matters.

3.5 ESG Reporting

Arcmont provides transparent and timely reporting on ESG-related matters via the quarterly and annual ESG reports. The reports include quantitative and qualitative ESG analysis at both company and fund level. Section 3.3, ESG Integration Post-Investment Reporting, outlines the content of each report. Examples of our reporting templates are available on request.

3.6 ESG Advocacy

The development of Arcmont's ESG Investment Risk Management Policy and ESG practices have been informed by reference to and consideration of current best practice in ESG investing. Arcmont is committed to working with others on promoting incorporation of ESG into investing and sees its membership of the UN-supported PRI as an important mechanism for achieving this.

Over time, Arcmont will review and consider involvement in other ESG investment related industry initiatives and/or organisations as appropriate.

4. Governance

Arcmont operates a three-tiered approach to ESG.

1. Tier one is the Investment team who have all received ESG specific training and imbed ESG principles into their due diligence and monitoring. They actively monitor ESG issues at portfolio companies and prepare ESG reporting.
2. Tier two is the Risk and Portfolio Monitoring team who have undertaken specific ESG training and who form the bridge between the Investment team and KKS Advisors.
3. The third tier is KKS Advisors who:
   - Advise on latest developments and best practices
   - Provide ESG training
   - Conduct ESG due diligence reviews and advise on due diligence reports
   - Independently review all ESG analysis and scores as well as quarterly ESG updates
   - Assist with policy and procedure updates
   - Be on hand to answer ESG related questions

This policy is reviewed on a regular basis, at least annually, by the Portfolio Monitoring Committee[2] and is updated where necessary to reflect Arcmont's investment objectives, approach, and the latest developments in ESG.

[2] The Portfolio Monitoring Committee comprises the Investment Committee, Nathan Brown (COO) and Joanna Pinkard (Head of Compliance).

5. Transparency

Arcmont is committed to providing timely and relevant communication and reporting of its ESG investment risk efforts. As part of its commitment to ESG, Arcmont continues its journey as a signatory to the UN-supported PRI. On an annual basis, Arcmont provides transparency on its ESG approach by submitting a Transparency Report[3] to the PRI which is made publicly available. In addition, Arcmont aims to make further ESG information available, to interested parties, typically via quarterly and annual reporting.

6. Contact Details

For further information about ESG investment risk management at Arcmont, please contact ESG@Arcmont-am.com.

[3] We are not required to submit PRI reporting until 2022; however, we submitted voluntary reporting for the 2021 cycle in order to obtain an assessment. The results of this will be made available to investors.