Responsible Investment Policy

Arcmont Asset Management Limited

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Contents

Introduction and Background

Responsible investment is a strategy and practice to incorporate environmental, social and governance ("ESG") factors into investment decisions and active ownership. This policy document outlines the extent and process of Arcmont's responsible investment activities. The objective is to provide transparency around Arcmont's responsible investment philosophy and approach. This policy covers all of Arcmont's assets under management and is reviewed on at least an annual basis by the ESG Committee. Note that this policy was first implemented in 2013, with the latest enhancements being rolled out in October 2022. Any enhancements made apply to active funds at the time of implementation. This means that legacy funds may not be subject to the same stringent requirements.

Arcmont's responsible investment focus was established in 2013 when the firm implemented a dedicated ESG investment risk management process and became a member of the United Nations-supported Principles for Responsible Investment ("PRI") while part of BlueBay Asset Management, contributing to their Private Debt guidelines.

As a PRI signatory, Arcmont is committed to:

- **Principle 1**: Incorporating ESG issues into investment analysis and decision-making processes;
- **Principle 2**: Being an active owner and incorporating ESG issues into ownership policies and practices;
- **Principle 3**: Seeking appropriate disclosure on ESG issues by investee companies;
- **Principle 4**: Promoting acceptance and implementation of the principles within the investment industry;
- **Principle 5**: Working together to enhance effectiveness in implementing the principles; and
- **Principle 6**: Reporting on activities and progress towards implementing the principles.

Related ESG Policies

In addition to this Responsible Investment Policy, Arcmont adheres to an ESG Exclusions Policy.

Material ESG Factors

Financially material ESG factors are environmental, social and governance factors that may significantly influence a company's financial performance. Note that the materiality of ESG factors will vary across companies, sectors, regions, asset classes and through time. Please see below definitions and examples of financially material environmental, social and governance factors.

	ENVIRONMENTAL	SOCIAL	GOVERNANCE
Definition	Environmental factors cover a company's contribution or impact on the natural world.	Social factors cover a company's relationship and performance concerning people and the community in which it operates.	Governance factors cover the internal system of practices, controls, and procedures that a company adopts to govern itself.
Examples	· Climate change · Resource depletion · Deforestation · Pollution · Water and waste management · Biodiversity	· Human rights · Working conditions · Employee relations · Diversity and inclusion · Health and safety · Community relations	· Risk management · Tax transparency and accounting · Board structure and diversity · Executive pay · Corporate reporting · Shareholder protection
Business Risk	Concerns around the physical consequences of climate change resulting in new regulation that leaves assets in the fossil fuel industry at risk of becoming 'stranded'.	Evidence of illegal human rights practices in supply chains could represent a supply risk for retailers, impacting brand value and reputation.	Lack of diversity in the c-suite could introduce biases into decision-making, thus creating a more exclusive culture which could impact employee engagement and productivity.

Responsible Investment Philosophy

ESG factors have the potential to impact financial performance. They are a source of investment risk and a driver of investment value. Therefore, understanding and minimising ESG risks and promoting better ESG performance is essential to create long-term value for clients and beneficiaries, in line with Arcmont's fiduciary duty. Further, practising and promoting responsible investment amongst portfolio companies allows Arcmont to contribute to sustainable benefits for the economy, the environment and society.

Note that the limited upside potential of Private Debt investments post-closing means Arcmont's focus is drawn to the potential downside risks that may lead to a default. This generally means that Arcmont prioritises ESG factors that might be drivers of risk as opposed to sources of opportunity.

Responsible Investment Approach

Over the years, Arcmont's responsible investment approach has continued to be enhanced and developed to reflect best practice, culminating in a robust ESG-integrated investment process. Today, Arcmont integrates ESG factors with two key objectives:

1. To identify ESG investment risks and opportunities to enhance investment decision making; and
2. To incentivise portfolio companies to improve their ESG performance.

A summary of the process is shown below. Each step is further explained on the following pages.

Overview of Arcmont's ESG-Integrated Investment Process

PRE-INVESTMENT

1 ESG Negative Screening

- Firm-wide ESG Exclusions Policy
  - Combination of activity-specific & principle-based exclusions
  - Specific climate exclusions
- Good Governance assessment

2 ESG Due Diligence

- Every prospective borrower undergoes a comprehensive ESG materiality assessment
  - Includes a high-level climate-risk assessment
  - Includes a review of borrowers' approach to managing their energy consumption and GHG emissions
  - Includes a UN Sustainable Development Goal (SDG) alignment assessment
- Results in an ESG Investment Impact Score
- ESG Monitoring Areas identified

INVESTMENT

3 The Final Investment Decision

- Investment Committee approval required
- Deal Approval Committee approval required
- Both committees review the pre-investment ESG due diligence results
- Deal Approval Checklist required to be completed which contains questions on legal, tax, compliance, and ESG matters – **including specific climate-related questions**

POST-INVESTMENT

4 ESG Engagement

- Sustainability linked margin ratchets
- Targeted ESG engagement plans for significant (+20%) equity positions
- Climate-related engagements through both avenues

5 ESG Monitoring

- Active, regular dialogue with borrowers
- Formal quarterly ESG updates

6 ESG Reporting

- Timely and transparent quarterly ESG reporting for investors
- Includes fund level ESG characteristics and, for each borrower:
  - ESG Investment Impact Score
  - Updates on ESG Monitoring Areas
  - Details of any engagements

1. ESG Negative Screening

Arcmont has elected to limit its exposure to a number of controversial activities, as detailed in its ESG Exclusions Policy. In general, Arcmont believes it is preferable to engage with companies on ESG matters to try and correct any controversial practices, however, some activities are fundamentally counter to Arcmont's responsible investment objectives.

Note that Arcmont utilises RepRisk, a third-party research and business intelligence organisation specialising in ESG data science, to source additional information on ESG risk incidents and controversies. RepRisk screening is a fundamental part of the pre-investment screening process, providing an additional layer of comfort on each investment decision.

2. ESG Due Diligence

Arcmont's Universe of ESG Issues

In conjunction with subject matter experts, Arcmont created a bespoke tool titled "Arcmont's Universe of ESG Issues". The tool captures the most relevant and most material ESG factors for the companies in Arcmont's investable universe and was built with reference to Sustainability Accounting Standards Board ("SASB") Standards' issues categories as well as other guidance materials. These factors are systematically considered when assessing and monitoring investments.

Environmental	Social	Governance
• Biodiversity and Land Use	• Access and Affordability	• Board Management
• Energy Management	• Chemical Safety	• Executive Pay
• Greenhouse Gas Emissions	• Community Relations & Human Rights	• Ownership and Control
• Climate Risk (Physical, Transitional, Regulatory)	• Customer Privacy and Data Security	• Business Ethics and Integrity
• Toxic Emissions and Waste Management	• Employee Wellbeing, Health, and Safety	• Sustainability Governance
• Water Stress	• Human Capital Development	• Anticompetitive Practices
• Responsible Investment	• Labour Practices	• Financial System Instability
	• Material Sourcing and Efficiency	• Tax Transparency & Accounting
	• Product Design & Lifecycle Management	• Critical Incident Risk Management
	• Product Quality and Safety	• Management of the Legal & Regulatory Environment
	• Selling Practices and Product Labelling	
	• Supply Chain ESG Standards and Monitoring	

ESG Materiality Assessment and ESG Investment Impact Score

Every prospective investment undergoes a comprehensive ESG materiality assessment and is assigned an ESG Investment Impact Score, the details of which are documented in a final investment memorandum and are considered by the Deal Approval Committee before making the ultimate decision to invest.

The ESG Investment Impact Score ranges from -6 (Very High Impact) to +6 (Very Low Impact) capturing the overall likelihood of a financial impact on the investment due to ESG risks, given the information available. Arcmont's scoring approach leans on methodologies used by data providers and rating agencies to deliver a robust, systematic, and comparable approach to evaluating ESG considerations in the underwriting process, which informs and enhances Arcmont's investment decision-making.

Arcmont's ESG analysis begins with the deal team performing a materiality assessment which involves outlining:

(a) Any ESG risks that are likely to be relevant to the investment, considering factors such as geography, industry, business model, and past controversies, indicating the extent to which a risk is a concern (Risk Exposure); and
(b) Whether the risk is being addressed by management such as through internal policies and implementation systems as well as the quality of management of past incidents (Risk Management).

It is at this stage that any financially material ESG issues are flagged as requiring ongoing monitoring (ESG Monitoring Areas).

Next, prospective investments receive a rating along each pillar of E, S, and G according to their potential financial impact on the investment. These are then aggregated to get an overall ESG Investment Impact Score. Note that Arcmont has an internal policy to not invest in a company with a score of less than -3 (High Impact).

UN Sustainable Development Goal ("SDG") Alignment Assessment

Next, each portfolio company is reviewed for potential contributions to the UN SDGs using the Asset Owner Platform's ("AOP") Sustainable Development Investments ("SDI") Taxonomy. Using the guidance materials provided by AOP, portfolio companies are manually assessed for potential classifications as SDIs, identifying any relevant sustainable development sub-goal and then assessing the magnitude of contribution. For more information, please visit the AOP's website.

Independent Review

Once the deal team have completed and documented the ESG materiality assessment, score and SDG alignment assessment, the materials are sent to Arcmont's external ESG consultant for an independent review.

3. Final Investment Decision

Every deal must be approved by the Deal Approval Committee before it can be executed. In order to obtain approval, the deal team must complete a Deal Approval Checklist which contains questions on legal, tax, compliance and ESG matters. The Committee review the populated checklist as well as the final investment memorandum containing the ESG analysis and score. Arcmont's ESG Portfolio Manager is required to sign off on every investment as part of this process. This process provides an additional control on compliance with regulatory, contractual, and internal risk management requirements, including ESG risks.

4. ESG Engagement

Arcmont is committed to engaging with portfolio companies to encourage them to improve their ESG profiles over the life of the investment and beyond. The structure of the investment will determine Arcmont's engagement approach as summarised below.

Investment Structure	Engagement Method
Debt only / debt and minority equity position	Sustainability linked margin ratchet
Debt and significant (>20%) equity position	Tailored ESG engagement plan
Majority equity owner following a restructuring	Tailored ESG engagement plan

Sustainability Linked Margin Ratchets

Private Debt asset managers have more limited mechanisms to exercise influence over portfolio companies than equity owners. To overcome this, sustainability linked margin ratchets have been introduced in the market, with lenders offering margin discounts to borrowers who meet specific sustainability performance targets ("SPTs"). Different managers have adopted different approaches to implement such ratchets. Arcmont has developed and implemented a bespoke programme named the Arcmont Environmental and Social ("E&S") Target Improvement Plan ("TIP") Programme.

Each E&S TIP is typically comprised of three progressive SPTs centered around an environmental or social key performance indicator ("KPI"). Note that the number of SPTs and KPIs vary from portfolio company to portfolio company, depending on the objective, feasibility, and scope of the plan.

When designing an E&S TIP, Arcmont focuses on issues that are likely to have the most significant financial impact, based on the result of the pre-investment ESG materiality assessment. This approach ensures that each E&S TIP is tailored to the characteristics of the portfolio company. Arcmont believes that this approach yields more impactful results.

To ensure that each E&S TIP is relevant, core and material to the portfolio company's overall business, Arcmont follows the Sustainability Linked Loan Principles ("SLLPs") published by the Loan Market Association, where possible, utilising a bespoke scorecard to easily assess alignment and identify gaps to be addressed. In the cases where a sustainability linked margin ratchet is proposed to Arcmont (e.g., club deals), it will be assessed using the scorecard to ensure alignment to the SLLPs.

Arcmont has an internal policy to offer every new primary borrower since 01 April 2021 the opportunity to participate in the programme.

Tailored ESG Engagement Plans

In some instances, Arcmont's investments take on an equity element. In the rare instances where Arcmont holds significant equity ownership (>20%), or where Arcmont has become a majority owner of a company following a restructuring, a targeted ESG engagement plan will be developed to ensure identified material ESG risks are managed in a robust manner and any potential negative external impacts are mitigated. The engagement plans focus on performance gaps and require companies to report on measures implemented to improve ESG performance bi-annually and provide data on KPIs annually.

Voting

In terms of voting rights, Arcmont may be able to vote in limited instances where investments take on an equity element and shareholder voting rights are granted. However, for the overwhelming majority of Arcmont's equity positions, only minority stakes in voting shares are held in private companies with majority owners and Arcmont is not typically consulted on matters being put to shareholder vote, including ESG matters. From a commercial perspective, Arcmont instead relies on market-standard minority shareholder protections, which are essentially designed to ensure that Arcmont is treated in the same way as the majority shareholder.

5. ESG Monitoring

Arcmont maintains an open and active dialogue with management teams to closely monitor the ESG profiles of portfolio companies. A formal review takes place on a quarterly basis where the deal teams raise the ESG Monitoring Areas identified with management teams, asking for relevant updates as well as an update on general ESG performance and objectives. Note that new ESG Monitoring Areas can be added over Arcmont's holding period. Based on these monitoring updates, the ESG Investment Impact Score of every portfolio company is reviewed and updated where necessary. For portfolio companies with sustainability linked margin ratchets or with tailored ESG engagement plans, milestone updates are required to ensure the company is on track to meet the targets set.

Note that Arcmont also utilises RepRisk as part of ongoing monitoring efforts. Each portfolio company is place on Arcmont's watchlist and is screened for risk incidents daily.

6. ESG Reporting

Product Level Reporting

Arcmont is committed to providing timely and transparent quarterly ESG reporting to investors. The funds' quarterly ESG reports contain information on Arcmont's approach to responsible investment, details of any material ESG events in the relevant period, and a summary of the ESG characteristics of the fund. The reports also include each portfolio company's ESG Investment Impact Score, updates on the ESG Monitoring Areas identified, details of engagement efforts, as well as alignment to the SDGs if applicable.

Arcmont also publishes the required Sustainable Financial Disclosure Regulation ("SFDR") disclosures in the funds' annual audited financial statements.

Public Disclosures

In addition to the product level reporting, Arcmont is committed to producing an annual corporate sustainability report detailing Arcmont's sustainability efforts for the year and objectives for the year ahead.

Further, as a signatory of the PRI Arcmont is required to submit a Transparency Report to the initiative which is made publicly available. Note that Arcmont was not required to submit a Transparency Report until 2022, however, due to administrative delays the first mandatory reporting cycle Arcmont will participate in is in 2023.

Responsible Investment Governance

ESG Committee

Arcmont's ESG Committee was officially formed in March 2021 and is ultimately responsible for ensuring the firm's corporate operations and investment practices are performed in a responsible manner and are supportive of sustainability outcomes.

The Committee is comprised of Arcmont's Chief Operating Officer, ESG Portfolio Manager, Head of Compliance, Senior Portfolio Manager and one of Arcmont's Co-Chief Investment Officers. These senior individuals were purposely selected as members as they sit on central decision-making committees and span across various teams. This ensures that ESG matters are considered at every critical investment decision point and the importance of investing and operating responsibly is communicated across the firm.

Below is a list of some of the Committee's core responsibilities:

- Oversight of ESG-integration and stewardship strategies and programmes;
- Ensuring appropriate resources are available to execute effective ESG-integration and stewardship activities;
- Reviewing and updating (as appropriate) Arcmont's ESG-related policies;
- Determining the frequency and scope of all ESG training;
- Ensuring Arcmont's compliance with applicable ESG related legislation, including the EU's SFDR and the Financial Conduct Authority's Task Force on Climate-Related Financial Disclosures regime ("TCFD");
- Ensuring Arcmont complies with its obligations to sustainability-related memberships and commitments;
- Overseeing the role of Arcmont's external ESG Consultant and other ESG service providers; and
- Reviewing and approving proposed sustainability linked margin ratchets and tailored ESG engagement plans in respect to Arcmont investments.

The Committee is kept well informed on a regular basis. Members are therefore able to evaluate the effectiveness and appropriateness of control mechanisms and targets, making enhancements and amendments where necessary. Note that the ESG Committee members receive regular, specific ESG training alongside the investment team.

Responsible Investment Policy Implementation

Arcmont operates a four-tiered approach to the day-to-day implementation of this policy as shown below.

Tier 1: Investment Team

The investment team is responsible for incorporating ESG factors in the investment process. At Arcmont, the same investment professionals that execute a deal will monitor the company over the life of the investment. As the ultimate risk takers and investment experts, Arcmont believes they are best placed to execute and promote responsible investment amongst portfolio companies. The team are regularly trained on ESG and incorporate their knowledge within the investment process, with support from Arcmont's dedicated ESG Portfolio Manager and external ESG consultant. One of Arcmont's Co-Chief Investment Officers sits on the ESG Committee. Further, there are two dedicated ESG Champions in the investment team who support the ESG Committee's efforts.

Tier 2: Risk and Portfolio Monitoring Team

The Risk and Portfolio Monitoring team comprises four individuals who form the link between the investment team and Arcmont's external ESG consultant. One individual, Arcmont's ESG Portfolio Manager, is fully dedicated to ESG and is supported by the rest of the team. Two members of the team are on the ESG Committee and have both completed the UN PRI's Applied Responsible Investment Course. They also receive regular ESG training alongside the investment team and therefore have the relevant ESG knowledge to execute their responsibilities.

Tier 3: KKS Advisors

KKS Advisors ("KKS") are Arcmont's external ESG consultant. The firm is highly qualified and experienced, specialising in sustainable finance, helping their financial clients deliver superior risk adjusted returns through advanced ESG integration. KKS provide Arcmont with specialist input and expertise, working closely with the investment team and Arcmont's ESG Portfolio Manager to ensure the effective integration of ESG factors in the investment process, as well as ensuring stewardship activities are conducted in an appropriate manner. KKS act as an additional process control as the team independently review all the ESG work performed by the investment team, both at the pre-investment stage and on a quarterly basis thereafter.

Conflicts of Interest

Arcmont seeks to operate in accordance with the highest standards of compliance and ethical conduct. Accordingly, a comprehensive conflicts of interest framework has been established and is documented in Arcmont's Conflict of Interest Policy.

External Initiatives

Arcmont is committed to working with others to promote responsible investment. Accordingly, the firm and members of the firm participate in a number of initiatives which helps to inform and develop Arcmont's responsible investment practices, contributes to the creation of Private Debt specific industry best practice and serves to bring about positive environmental, social, and economic change.

Initiative	Status
UN PRI Private Debt Advisory Committee ("PDAC")	COO is a member
UN PRI	Firm is a signatory
TCFD	Firm is a supporter
2021 Global Investor Statement to Governments on the Climate Crisis	Firm is a signatory

Contact Details

For further details on Arcmont's responsible investment approach, please contact ESG@arcmont.com.