Responsible Investment Policy

Arcmont Asset Management Limited

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Contents

Introduction and Background

Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship)[1]. 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. The first iteration of this policy was implemented in 2013, with the latest enhancements rolled out in October 2023. Note that any updates apply to the Arcmont funds that are still in their investment periods at the time changes are made. Funds that are no longer investing will not be subject to the new 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.

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.

Further, as a UK Stewardship Code 2020 (the "Code") signatory, Arcmont has embedded the 12 principles of the Code into its investment process.

Related Policies

In addition to this Responsible Investment Policy, Arcmont adheres to a Climate Change Addendum and an ESG Exclusions Policy as well as an internal Voting Policy.

[1] UN PRI: Introductory Guides to Responsible Investment

Material ESG Factors

Material ESG factors are those with a substantial impact on the current and future financial, economic, reputational and legal prospects of an issuer, security, investment or asset class[2]. 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 material environmental, social and governance factors.

	Environmental	Social	Governance
Definition[2]	Issues relating to the quality and functioning of the natural environment and natural systems.	Issues relating to the rights, well-being and interests of people and communities.	Issues relating to the governance of companies and other investee entities.
Examples of material ESG factors	- Climate change (transitional): Costs to comply with incoming climate-related regulations.	- Human rights: Reduced demand for products in response to supply chain human rights abuses.	- Business ethics: Fines and criminal proceedings from corrupt practices.
	- Climate change (physical): Stranded assets due to impact of extreme weather event.	- Employee engagement: High employee turnover from poor workplace culture.	- Anticompetitive practices: Fines from anticompetitive practices.
	- Toxic waste: Fines from improper disposal of waste.	- Diversity, equity and inclusion: Legal costs from discriminatory practices.	- Tax compliance: Fines relating to tax malpractices.

Responsible Investment Philosophy

ESG factors are financially material. They are a source of investment risk and a driver of investment value. As such, understanding and minimising ESG risks and promoting better ESG performance within Arcmont's investment activities is essential to create long-term value for clients and beneficiaries, in line with the firm'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 wider society. It also aligns with investors' broader environmental and social objectives and positions the firm well for the increasing regulations and policies relating to ESG issues and disclosures.

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.

[2] UN PRI: Reporting Framework Glossary

Responsible Investment Approach

Over the years, Arcmont's responsible investment approach has continued to be enhanced and developed to reflect best practice guidance. Today, Arcmont integrates ESG factors with two key objectives:

1. To identify ESG risks and opportunities to enhance investment decision making; and
2. To encourage portfolio companies to improve their sustainability performance, with a specific focus on their climate performance.

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

1 Negative Screening

Opportunities are first screened against Arcmont's ESG Exclusions Policy and screened for ESG risk incidents using RepRisk.

2 ESG Due Diligence

An ESG materiality assessment is conducted and the opportunity is assigned an ESG Risk Score. As part of this, a Good Governance assessment is undertaken. The analysis is documented and then sent to dss+ who perform an independent review and agree the score.

3 Final Investment Decision

The Investment Committee consider the credit analysis including the results of the ESG due diligence before making their decision to pursue the opportunity.

4 Deal Approval Committee

To obtain Deal Approval Committee approval, the deal team must populate a checklist that contains specific ESG questions relating to Arcmont's responsible investment policies and investor ESG requirements.

6 Engagement (Stewardship)

A sustainability-linked margin ratchet is offered to every new primary borrower since April 2021.

5 Monitoring

The deal teams maintain an active dialogue with portfolio companies and sponsors during the holding period. A formal review takes place on a quarterly basis where any ESG updates are documented and the ESG Risk Scores are adjusted where necessary. This is then shared with dss+ who independently review the updates and agree the scores.

7 Reporting

Quarterly product-level ESG reporting is provided to investors. The reports contain comprehensive ESG information from the due diligence, monitoring and portfolio management stages.

- Pre-investment
- Post-investment

1. 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 objective.

Note that Arcmont utilises RepRisk 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 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) Standard's issues categories as well as other guidance materials. These factors are systematically considered when assessing and monitoring investments.

ENVIRONMENTAL

- Biodiversity and Land Use
- Climate Risk (Physical)
- Climate Risk (Regulatory)
- Climate Risk (Transitional)
- Energy Management
- Material Sourcing and Efficiency
- Toxic Emissions and Waste Management
- Water Stress

SOCIAL

- Access and Affordability
- Community Relations
- Customer Privacy and Data Security
- Employee Wellbeing, Health and Safety
- Human Capital Development
- Labour Practices and Human Rights
- Product Design and Lifecycle Management
- Product Quality and Safety
- Selling Practices and Product Labelling
- Supply Chain ESG Standards and Monitoring

GOVERNANCE

- Business Ethics
- Enterprise Risk Management
- Management of the Legal and Regulatory Environment
- Ownership and Control
- Tax Transparency and Accounting

ESG Materiality Assessment and ESG Risk Score

Every prospective investment undergoes an ESG materiality assessment as part of the overall credit analysis and is assigned an ESG Risk Score. The ESG Risk Score ranges from +6 (Very Low Risk) to -6 (Very High Risk), capturing the overall likelihood of a negative 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 with the goal 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 has developed an "ESG Appendix Generator" to enhance and streamline the ESG due diligence process. The Appendix includes all the factors in Arcmont's Universe of ESG Issues. By selecting an investment's industry classifications (GICS and SASB), the Generator will highlight potential material issues (leveraging MSCI and SASB materiality matrices, SASB's Climate Risk Technical Bulletin, Arcmont's bespoke GICS mapping tool and other sources) and provide corresponding questions for the deal team to address. The questions consider a company's business activities, geographic location and other pertinent factors that were determined by Arcmont's external ESG consultant. This helps the deal team determine whether the suggested issue is material for the business in question and ensures a systematic evaluation of ESG factors during due diligence.

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 Risk Score. Note that Arcmont has a policy to not invest in a company with a score of less than -3 (High Risk) i.e. a company that is exposed to material ESG risks, but the risks are not sufficiently managed.

Independent Review

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

UN Sustainable Development Goal (SDG) Alignment Assessment

To understand the sustainability outcomes of investments, dss+ screens each company's products and services for potential contributions to the UN SDGs using the Asset Owner Platform's Sustainable Development Investments Taxonomy. Companies are screened against the list of investable entities and, where there is a match, a revenue assessment is undertaken by the deal team to determine the magnitude of contribution.

3. Final Investment Decision

Once dss+ has reviewed the ESG materiality assessment and score, the information is included in the ESG section of final investment memorandum. The relevant Investment Committee will consider this information alongside the credit analysis before making their investment decision.

4. Deal Approval Committee

In addition to being approved by the relevant Investment Committee, every deal must be approved by the Deal Approval Committee ("DAC") before it can be executed. To obtain approval, the deal team must complete a Deal Approval Checklist which contains questions on legal, tax, compliance and ESG matters. The ESG questions directly reflect Arcmont's ESG policies and investors' ESG requirements. The DAC reviews the populated checklist as well as the final investment memorandum containing the ESG analysis and score. Arcmont's Head of Corporate Sustainability and Responsible Investing is required to sign off on every investment as part of this process.

5. Engagement (Stewardship)

Arcmont leverages the Investment Consultants Sustainability Working Group's (ICSWG) definition of 'engagement' which is "purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). Regular communication to gain information as part of ongoing research should not be counted as engagement"[3].

Sustainability-Linked Margin Ratchets

As a Private Debt asset manager, Arcmont has less influence over portfolio companies than managers of other asset classes. To gain influence over portfolio companies' ESG management practices, Arcmont offers certain primary borrowers sustainability-linked margin ratchets[4] i.e. provisions that tie the rate of interest a borrower pays to pre-agreed key performance indicators ("KPIs") and sustainability performance targets ("SPTs").

Each ratchet is comprised of a number of KPIs and SPTs, however, the number of each varies per investment, as does the financial incentive which is determined based on the size of our holding and the ambition of the plan. To ensure the integrity of our offering, Arcmont follows the Loan Market Association's Sustainability-Linked Loan Principles to the extent possible.

At the time of implementation in April 2021, Arcmont endeavoured to create a bespoke plan for every participating borrower, targeting a specific material environmental and/or social issue a borrower faced, based on the results of the pre-investment ESG due diligence. However, in July 2022, in support of the transition to a net zero economy, the programme was revised to specifically target borrowers' climate change mitigation practices. Arcmont now endeavours to include a climate change related KPI in every ratchet and has a specific focus on encouraging borrowers to measure, publicly disclose and reduce their greenhouse gas (GHG) emissions in line with the Paris Agreement.

When selecting other KPIs to be included, Arcmont pursues a materiality-first approach focusing on the 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 every KPI is tailored to the characteristics of the portfolio company. Arcmont also prioritises systemic issues that are relevant to each borrower, including human rights, cybersecurity and biodiversity.

Arcmont may engage with a borrower individually or collectively with other transaction parties including private equity owners and other lenders.

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 and performance has stabilised, a tailored ESG engagement plan will be offered to encourage companies to better manage identified material ESG risks and mitigate potential negative external impacts. The engagement plans focus on performance gaps and

[3] ICSWG Engagement Reporting Guide.

[4] Arcmont has a policy to offer a sustainability-linked margin ratchet to every (i) new primary borrower since April 2021 and (ii) existing primary borrower who is provided additional financing after April 2021. Note that ratchets are voluntary, and borrowers elect to participate.

will include at least one climate change-related KPI. Participating companies are required to report on measures implemented to improve ESG performance and provide performance data annually.[5]

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. In such instances, the processes and procedures outlined in Arcmont's Voting Policy will be followed.

Escalation

Arcmont is committed to escalating any issue that is not in line with the firm's responsible investment objectives. In such cases, Arcmont will raise concerns directly with management teams and other transaction parties (private equity sponsors and other lenders), leveraging the firm's relationships to ensure appropriate remedial action is taken. If remedial action is not taken, Arcmont will not provide any additional facilities to the borrower and may consider selling the investment to a third party. Note that Arcmont is committed to exhausting all available avenues to remedy any situation rather than divest immediately.

6. 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 material ESG risks identified with management teams, asking for relevant updates as well as an update on general ESG performance and objectives. Note that new material ESG risks can be added over Arcmont's holding period.

Based on the monitoring updates, the ESG Risk 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 SPTs set.

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

7. Reporting

Product Level Reporting

Arcmont produces quarterly ESG reports for all funds it acts as portfolio manager to which contain information on Arcmont's approach to responsible investment, details of any material ESG events (if any) and a summary of the ESG characteristics of the fund. The reports also include each portfolio company's ESG Risk Score, updates on the material ESG risks identified, details of engagement efforts, as well as alignment to the SDGs if applicable.

Arcmont ensures that the required Sustainable Financial Disclosure Regulation (SFDR) disclosures are published in the relevant funds' annual audited financial statements.

Public Disclosures

Arcmont is committed to producing an annual corporate sustainability report detailing Arcmont's sustainability efforts for the year and objectives for the year ahead.

As signatory of the PRI, Arcmont is required to submit an annual Transparency Report to the initiative which is made publicly available. Arcmont submitted a voluntary Transparency Report in 2021

[5] Please note that tailored ESG engagement plans are voluntary and portfolio companies may choose not to participate.

(covering the 2020 calendar year) and its first mandatory report in 2023 (covering the 2022 calendar year). The mandatory report will be published on the UN PRI website once the results are released.

As a signatory of the UK Stewardship Code, Arcmont is required to submit an annual Stewardship Report to the Financial Report Council (FRC). Should the report meet the FRC's requirements, the report is made publicly available on the FRC website.

Governance

ESG Committee

Arcmont's ESG Committee is 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 (chair), Co-Chief Investment Officer, Head of Corporate Sustainability and Responsible Investing, Chief Compliance Officer and Head of Portfolio Monitoring. 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.

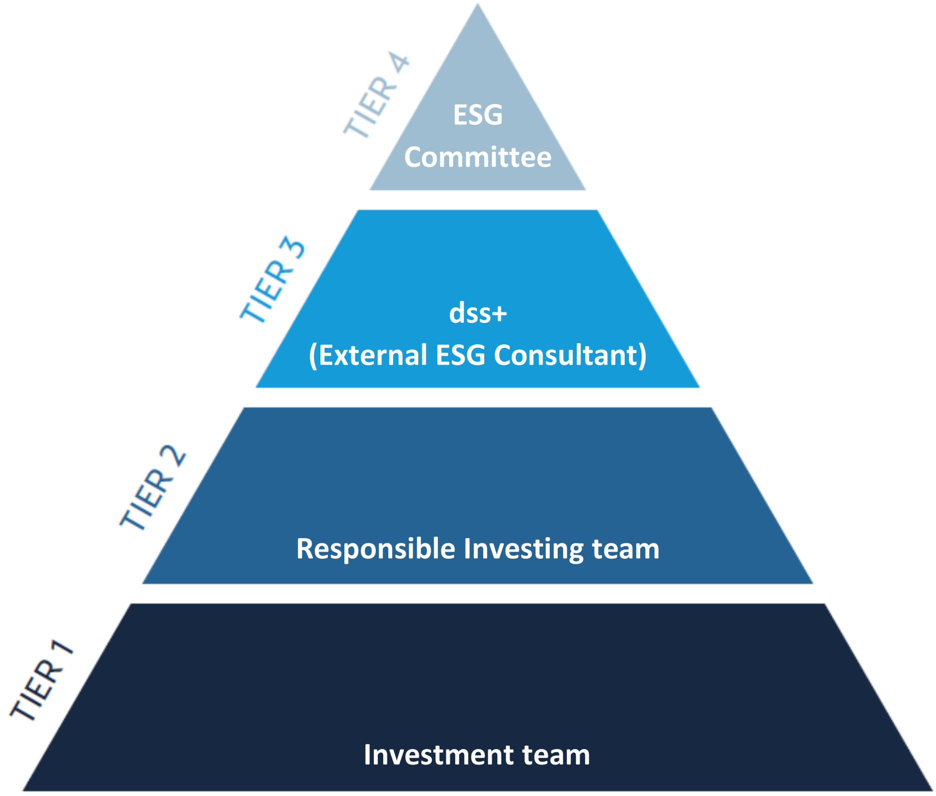
Below are some of the Committee's core responsibilities:

- 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 responsible investment-related policies.
- Determining the frequency and scope of all responsible investment training.
- Ensuring compliance with applicable ESG-related legislation, including the EU's Sustainable Finance Disclosure Regulation (SFDR) and the UK's Task Force on Climate-Related Financial Disclosures regime (TCFD).
- Ensuring Arcmont complies with its obligations and commitments as a signatory to sustainability-related memberships.
- Overseeing the role of Arcmont's external ESG consultants and other ESG service providers.
- Reviewing and approving proposed sustainability-linked margin ratchets and tailored ESG engagement plans with respect to Arcmont investments.

The Committee meets quarterly to review ESG-related performance and set objectives. 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 ESG training.

Policy Implementation

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



Tier 1: Investment team

The Investment team is responsible for incorporating ESG factors into the deal life cycle and undertaking stewardship activities. At Arcmont, the same investment professionals that execute a deal will monitor the investment during the holding period. As the ultimate risk takers and investment experts, they are best placed to execute effective ESG-integration and stewardship activities amongst investments.

The team is regularly trained on responsible investment, at least annually, and is supported by the Responsible Investing team and dss+, who are on hand to answer any questions and fill any knowledge gaps. In addition, all new joiners receive ESG training as part of the onboarding process. Note that there are three ESG champions in the team and one of Arcmont's Co-Chief Investment Officers sits on the ESG Committee.

Tier 2: Responsible Investing team

The Responsible Investing team comprises two individuals who form the link between the Investment team and dss+. Both individuals have been upskilled in responsible investment and receive regular ESG training.

Tier 3: dss+ (External ESG Consultant)

dss+ (a global consulting firm that acquired KKS Advisors) is a leading provider of operations management consulting services with a focus on sustainability. The dss+ team specialises in strategy and research, empowering their clients to create long-term value through the integrated management of economic, environmental, social and governance factors.

dss+ assists Arcmont with the development and execution of the firm's sustainability strategy, with a specific focus on responsible investment. The firm ensures Arcmont is aware of industry best practices and provides the firm with specific subject-matter expertise.

Additionally, dss+ serves as an independent layer of oversight to help ensure the integrity and thoroughness of Arcmont's responsible investment commitment. The team independently reviews all the responsible investment endeavours undertaken by the Investment team. This review occurs both during the pre-investment phase and on a quarterly basis post-investment, assuring continuous alignment with Arcmont's responsible investment goals. For further information on dss+, please visit the company's website.

Conflicts of Interest

Arcmont seeks to operate in accordance with the highest standards of compliance and ethical conduct. Accordingly, an extensive 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 Principle for Responsible Investment (PRI)	Firm is a signatory
UN PRI Private Debt Advisory Committee	COO is a member
UK Stewardship Code 2020	Firm is a signatory
Task Force on Climate-Related Financial Disclosures (TCFD)	Firm is a supporter
2021 Global Investor Statement to Governments on the Climate Crisis	Firm is a supporter

Contact Details

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