Arcmont
ASSET MANAGEMENT

Arcmont Asset Management Limited Stewardship Report

October 2022

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Preface

The UK Stewardship Code 2020 (“the Code”) sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.

The Code defines “Stewardship” as “the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

The Code comprises a set of ‘apply and explain’ principles for asset managers but does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

At Arcmont Asset Management Limited (“Arcmont”), **we are committed to exercising effective stewardship, recognising that it is fundamental to fulfilling our fiduciary duty to the funds we act as portfolio manager to**. Accordingly, we fully support the principles of the Code and have embedded its 12 principles into our investment process.

This inaugural Stewardship Report sets out **our commitment to adhering to the highest stewardship standards** and contains details on **how we have fulfilled our stewardship responsibilities** over the 12-month period ending 31 October 2022 as well as how we plan to enhance our stewardship approach over the next 12-month period.

Note that all data included in this report is stated as of 30 September 2022 unless otherwise specified.

Yours sincerely,

Anthony Fobel
Chief Executive Officer

About Arcmont

Arcmont is a leading Private Debt asset management firm, providing flexible capital solutions to a wide range of businesses across Europe. Founded in 2011, Arcmont is now an independent majority employee-owned business having raised more than €22 billion[1] of investor capital since inception. For more information about Arcmont, please visit our *website*.

Stewardship at Arcmont

The Code defines "Stewardship" as "the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." For the purpose of this report, Arcmont's "clients" are deemed to be the funds for which Arcmont acts as portfolio manager to.

At Arcmont, we endeavour to responsibly allocate, manage, and oversee capital to create long-term sustainable benefits for our clients and beneficiaries, the economy, society and the environment. However, it is important to highlight that as a Private Debt asset manager, we face the combined challenges of operating in the private market and being a lender to businesses rather than an owner. These challenges include:

1. **Limited control over portfolio companies:**
   As a lender to the vast majority of our portfolio companies, we have more limited mechanisms to exercise influence over them than equity owners. Although we are able to gain influence over our portfolio companies' environmental and social management practices by offering financial incentives through sustainability-linked margin ratchets, we cannot force them to action our recommendations. Please refer to ***Principle 9: Engagement*** for further details on our engagement activities.

2. **ESG data limitations:**
   While managers of all asset classes have in the past experienced significant difficulties in accessing timely, high-quality, and comparable ESG data, this challenge is intensified in private markets. As opposed to public markets where companies are required to produce certain ESG disclosures and data, the opaque nature of private markets and lack of publicly available ESG data means private market investors must conduct their own bottom-up fundamental analysis on prospective investments. In most cases, any ESG data that is collected is discretionary and driven by the mandates of equity owners. Although we make significant efforts to capture all ESG data that is made available to us, we are often left with incomplete data sets or no ESG data at all, which limits our ESG analysis.

3. **Absence of Private Debt specific guidance:**
   Despite the clear appetite for ESG integration in the Private Debt space and the idiosyncrasies of the asset class, there remains no globally agreed industry-wide best practice for integrating ESG as well as how best to engage with borrowers during holding periods. In contrast, multiple frameworks and guidance materials exist for other asset classes. Private Debt managers like Arcmont are therefore left to actively search and navigate available guidance to determine what best practice looks like for the asset class.

[1] Includes separately management accounts and leverage.

Purpose and Governance

Principle 1: Purpose, Strategy and Culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose of our organisation

At Arcmont, we seek to protect and grow our clients' capital by delivering attractive risk-adjusted returns in a way that is sustainable for our investors, portfolio companies and wider society. To execute this, we promote and exercise effective stewardship in the funds we act as portfolio manager to on behalf of our investors as well as within our corporate operations.

Our business model and strategy

As a firm, we aim to continue to grow our assets under management, investor base and product offering in a sustainable manner. This means ensuring our corporate operations and investment practices are performed in a responsible manner and are supportive of sustainability outcomes. Accordingly, we have invested in a sustainability strategy that builds on our responsible investment practices, responsible operations, and supporting governance structures.

Our responsible investment belief

We established our responsible investment focus nearly a decade ago when we implemented a dedicated ESG investment risk management process and policy and became a member of the UN Principles for Responsible Investment ("PRI"), contributing to their Private Debt guidelines.

Over the years, we have continued to develop and enhance our responsible investment approach which has culminated in a rigorous ESG-integrated investment process. Today, we integrate ESG factors with two key objectives:

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

ESG factors have the potential to impact financial performance. They are sources of investment risk and drivers of investment value. Therefore, understanding and minimising ESG risks and promoting better ESG performance is essential to delivering absolute risk-adjusted returns to our investors. For further information on our ESG-integrated investment process, please refer to *Principle 7: Stewardship, investment and ESG integration*.

Our culture and values

We recognise that our employees' skills, qualities and behaviour drive our ability to deliver our strategy. We are therefore committed to supporting our talented, diverse workforce with the resources required to enable the firm to achieve outstanding results for our investors, portfolio companies and other stakeholders, and aim to sustain a culture where our **four corporate values** are exemplified by all.

4 Corporate Values

Integrity
We are committed to the highest standards of personal and professional ethics, demonstrating accountability for our actions through transparency.

Excellence
We foster a high performing environment where our employees strive to deliver outstanding results for our investors, portfolio companies and other stakeholders, and understand that there is continued scope for improvement.

Innovation
We seek to anticipate and adapt to the needs of our investors and portfolio companies to deliver best-in-class outcomes.

Collaboration
As a firm, we share our knowledge, experience and ideas, working towards a collective goal.

All employees are held accountable to these values in their annual performance reviews, and we reward them for demonstrating alignment to them. We provide thorough training and have strict controls and processes in place to ensure employees know what is expected of them, ensuring they act in a responsible manner and in the best interest of our clients. Please refer to ***Principle 2: Governance, Resources and Incentives*** for further details.

Actions taken during the period to ensure our investment belief, strategy and culture enable effective stewardship

In the 12-month period ending 31 October 2022, we undertook the following activities to ensure our responsible investment belief, strategy and culture enables effective stewardship:

- Conducted an internal ESG materiality analysis and industry benchmarking exercise to identify, understand and prioritise the issues that are deemed to be critical to our business performance, investors and other key stakeholder groups. Please refer to our ***2021 Sustainability Report*** for the results of this analysis;
- Subsequently invested in a sustainability strategy that builds on the 12 priority areas that were identified, setting clear objectives for the year ahead. Please refer to our ***2021 Sustainability Report*** for details of the objectives;
- Undertook a stewardship gap analysis against the 12 principles of the Code and the principles of the UN PRI to identify areas of improvements and prioritise our stewardship efforts, the details of which are laid out in this report;
- Reviewed our 2021 UN PRI assessment results covering the 2020 calendar year, identifying the areas for improvement that remain relevant to our current, more enhanced responsible investment practices which we have already started to address. Please refer to ***Principle 5: Review and Assurance*** for further details;
- Continued to offer sustainability-linked margin ratchets to strengthen our influence over portfolio companies and encourage them to improve their environmental and social performance. During the period we agreed 15 sustainability-linked margin ratchets. Please refer to ***Principle 9: Engagement*** for further details; and
- Defined our corporate values to reflect what we believe are actionable practices that will enhance decision making, align employee behaviour and foster a shared understanding of success.

These activities have identified areas of improvement for us to address to strengthen our stewardship approach.

Future actions

In the year ahead, we plan to action the following to further protect and enhance our stewardship approach:

- Re-perform a materiality assessment to ensure that the 12 priority areas we are focused on continue to be appropriate and relevant, ensuring our efforts and resources are focused in the right areas and subsequently set objectives for 2023;
- Deliver on the 2022 objectives laid out in our ***2021 Sustainability Report***;
- Deliver on all future actions listed under each principle in this report;
- Address the gaps identified by the UN PRI assessment before we participate in the next reporting cycle; and
- Continue to drive our engagement efforts to encourage our portfolio companies to improve their ESG profiles.

Principle 2: Governance, Resources and Incentives

Signatories' governance, resources, and incentives support stewardship.

Governance structure

The Private Debt team was founded in 2011, originally as the BlueBay Asset Management Limited ("BlueBay") Private Debt business. In 2019, we span-out, becoming an independent majority employee-owned business of 43 employees. We have now grown to a team of c.100 people.

We have designed and implemented a governance structure that we believe enables oversight and accountability for effective stewardship within our organisation that is appropriate for our size and our growth ambitions. We operate with multiple subject-specific committees with defined responsibilities to facilitate effective and prudent management which is essential to ensuring we meet our stewardship objectives. Members of each committee have the relevant skills and experience to perform their roles. They also come from diverse backgrounds, contributing diversity of perspectives and opinions, ultimately enhancing decision making.

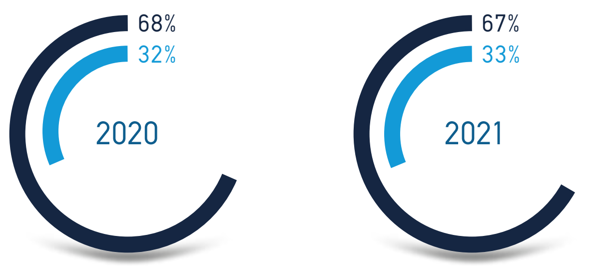
We believe our governance structure fosters accountability and transparency in the way we operate and conduct business, ensuring that as firm we act as effective stewards of our clients' capital. As we continue to grow, we will continue to review our structure to ensure it remains appropriate.

Diversity

We recognise that Diversity, Equity & Inclusion ("DEI") efforts in the workplace are of critical importance. It is not only the right thing to do, but also creates greater value for our stakeholders. Having diverse people of all genders, ethnicities, backgrounds, and experience is essential to our success. It enables us to provide fresh perspectives and craft innovations. Ultimately, our diversity makes us a stronger team and better in everything we do.

The pie charts below provide a snapshot of the gender representation levels across the firm as of 31 December 2020 and 2021. We recognise there is room for improvement and are committed to improving gender diversity further as well as race and ethnic diversity which were not historically tracked. Please refer to our ***2021 Sustainability Report*** for details on how we intend to do so.

GENDER DIVERSITY STATISTICS

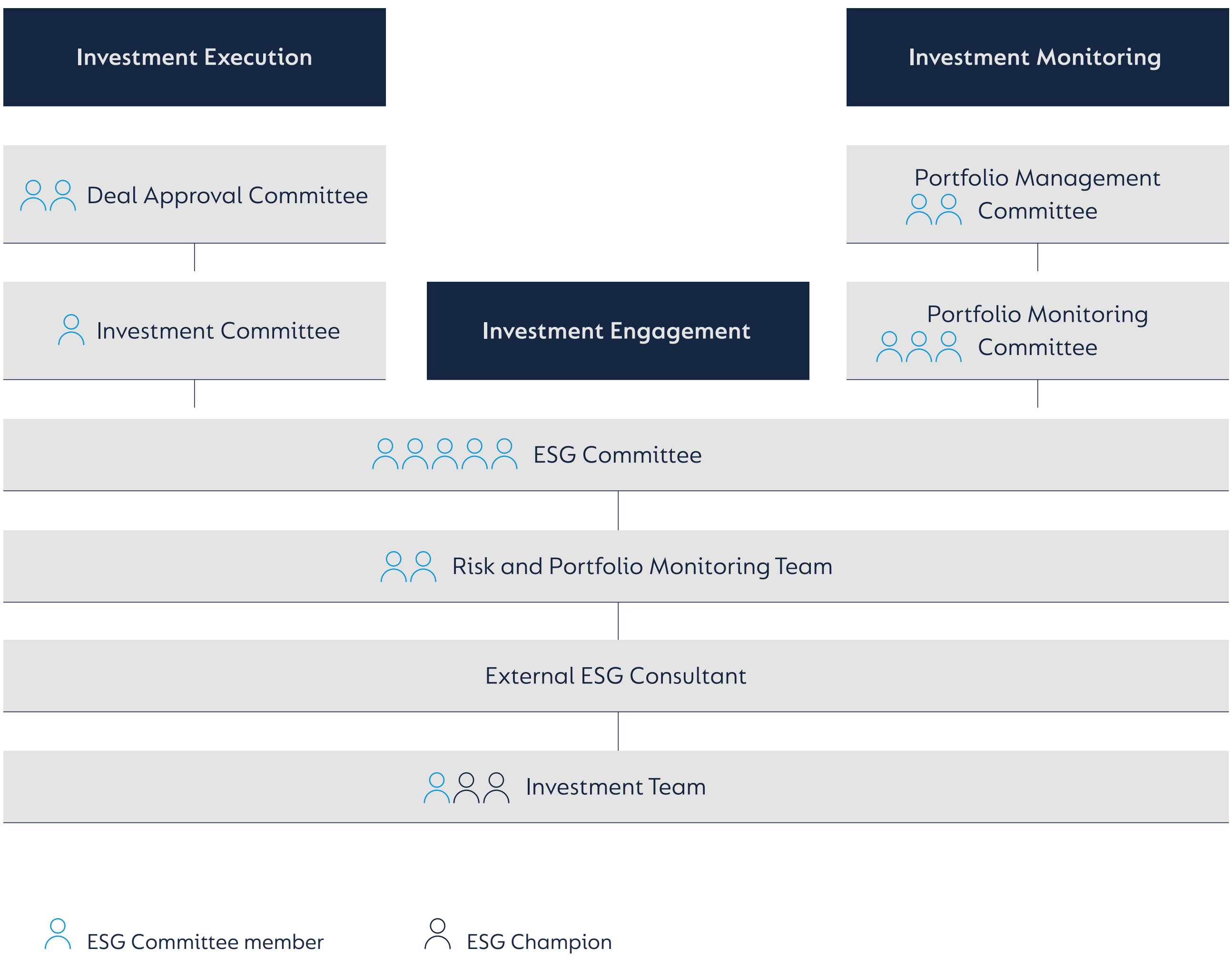


Male Female

Stewardship Oversight

Below we show how stewardship is integrated into our investment governance framework.

INVESTMENT GOVERNANCE FRAMEWORK



ESG Committee

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

The Committee is comprised of our Chief Operating Officer, ESG Portfolio Manager, Head of Compliance, Senior Portfolio Manager and one of our Co-Chief Investment Officers. We have purposely selected senior individuals as members, who sit on central decision-making committees and span across various teams.

This ensures that ESG and stewardship matters are considered at every critical investment decision point and the importance of investing and operating responsibly is communicated across the firm. During the relevant reporting period, we added one of our Co-Chief Investment Officers to the Committee and appointed two dedicated ESG champions in the investment team to further strengthen the Committee's reach.

Below we list 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 stewardship-related policies.
- Determining the frequency and scope of all ESG training.
- Ensuring Arcmont's compliance with applicable ESG related legislation, including the EU's Sustainable Finance Disclosure Regulation (SFDR) and the Financial Conduct Authority's (FCA) 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 consultant and other ESG service providers.
- Reviewing and approving proposed sustainability-linked margin ratchets and tailored ESG engagement plans in respect to Arcmont investments.

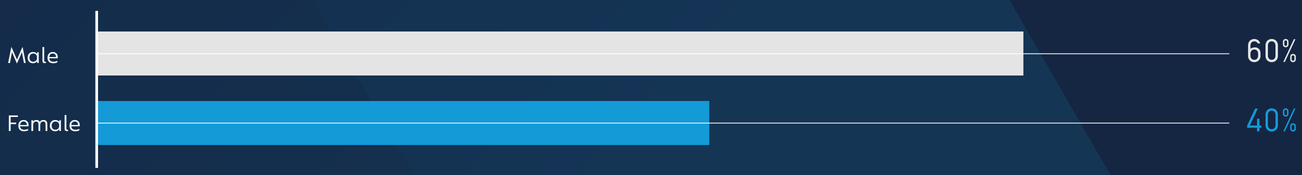
The Committee is kept well informed on a regular basis. Members are therefore able to evaluate the effectiveness and appropriateness of control mechanisms and targets, making enhancements and amendments where necessary. Note that the ESG Committee members receive regular, specific ESG training alongside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

SENIORITY, EXPERIENCE, QUALIFICATIONS, TRAINING AND DIVERSITY OF THE ESG COMMITTEE

NAME AND TITLE	YEARS IN INDUSTRY	YEARS IN ESG[2]	QUALIFICATIONS AND TRAINING	OTHER ARCMONT COMMITTEES
Chief Operating Officer (Chair)	24	4	- Leads our ESG advocacy efforts through his participation as: • A member of the UN PRI Private Debt Advisory Committee (PDAC) • Vice Co-Chair of the Alternative Investment Management Association (AIMA) Alternative Credit council (ACC) Manager's Committee - Chartered accountant	- Arcmont's Funds Board (Executive Director) - Arcmont Corporate Board - Deal Approval Committee - Portfolio Management Committee - Portfolio Monitoring Committee - Conflicts of Interest Committee - Operational Risk Committee - Product Governance Committee
ESG Portfolio Manager	6	4	- Drives our responsible investment and corporate sustainability efforts - Completed the UN PRI's Applied Responsible Investment Course - Currently studying towards the CFA ESG certificate - Chartered accountant	N/A
Partner & Co-Chief Investment Officer	15	4	- Ensures ESG and stewardship factors are consider in all investment committee decisions	- Investment Committee - Portfolio Management Committee
Head of Compliance	9	2	- Leads our efforts to ensure we are compliant with all applicable ESG regulations	- Deal Approval Committee - Portfolio Monitoring Committee - Conflicts of Interest Committee - Operational Risk Committee - Product Governance Committee
Senior Portfolio Manager	12	5	- Ensures ESG and stewardship factors factors are consider in portfolio monitoring activities - Completed the UN PRI's Applied Responsible Investment Course - Chartered accountant	- Portfolio Monitoring Committee

[2] We have operated with a formal ESG investment risk process since July 2013.

GENDER DIVERSITY OF THE ESG COMMITTEE



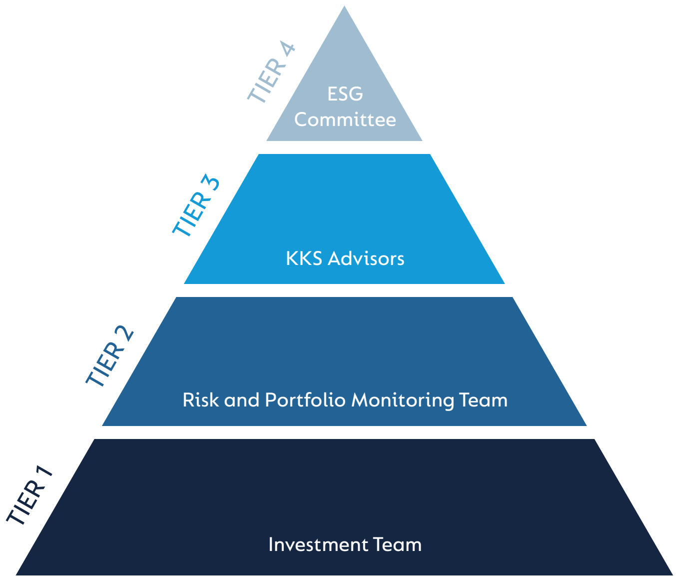
Assessment of how effective our governance structure and processes have been in supporting stewardship

Please see below examples of some of the activities undertaken by the ESG Committee in the 12-month period ending 31 October 2022 which demonstrate the effectiveness of our governance structure in supporting our ESG-integration and stewardship activities:

TOPIC	DETAIL
Environmental and Social Target Improvement Plan	The Committee provided input on and ultimately approved enhancements to the programme to accelerate its roll out. For more information, please see ***Principle 4: Promoting Well-Functioning Markets***.
Sustainability-Linked Margin Ratchet Approval	During the 12-month period ending 31 October 2022, the Committee approved a total of 15 sustainability-linked margin ratchets.
Modern Slavery Statement	The Committee provided input on and approved Arcmont's ***2022 Modern Slavery Statement***.
ESG Policies	The Committee provided input on and approved revisions to Arcmont's ***Responsible Investment Policy*** (previously titled ESG Investment Risk Management Policy).
ESG Exclusions Policy Queries	Where an investment falls into a "grey" area with regards to our ESG Exclusions Policy, the opportunity is presented to the ESG Committee. During the 12-month period ending 31 October, the committee reviewed a total of 4 such investments. Out of those reviewed, 2 were approved for investment after further due diligence confirmed they were in compliance with the policy. Note that the Committee takes a conservative approach and will not approve a deal that goes against the "spirit" of our policy.
Sustainable Finance Disclosure Regulation (SFDR) Good Governance Assessment	The Committee provided input on and approved Arcmont's "Good Governance" assessment. Please refer to ***Principle 4: Promoting Well-Functioning Markets*** for further details.
ESG Training	The Committee arranged two training sessions for the investment team based on recommendations from our ESG Portfolio Manager and external ESG consultant. Please see details below.

ESG-integration implementation

We operate a four-tiered approach to the day-to-day implementation of our ***Responsible Investment Policy***.



Tier 1: Investment Team

The investment team are responsible for undertaking stewardship activities and incorporating ESG factors as part of their investment process. At Arcmont, the same investment professionals that execute a deal will monitor the investment during our holding period. As the ultimate risk takers and investment experts, we believe they are best placed to execute effective ESG-integration and stewardship activities among our investments. The team are regularly trained on ESG and incorporate their ESG knowledge within the investment process, with support from our dedicated ESG Portfolio Manager and external ESG consultant.

The investment team is comprised of 35 investment professionals with an average of 12 years of industry experience, across a wide range of businesses, sectors, and geographies. For the team's biographies, please see our ***website***. They are encouraged to achieve the best outcomes for our clients through our incentive programme. Please refer to ***Incentives*** section below for more details on the programme.

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 our external ESG consultant. One individual, our 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: External ESG Consultant

KKS Advisors ("KKS") are our external ESG consultant. The firm is a highly qualified and experienced ESG consulting firm specialising in sustainable finance, helping their financial clients deliver superior risk-adjusted returns through advanced ESG integration. KKS provide us with specialist input and expertise, working closely with the investment team and our ESG Portfolio Manager to ensure the effective integration of ESG factors in our investment process, as well as ensuring we conduct our stewardship activities 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. For further information on how we work with KKS, please refer to ***Principle 8: Monitoring Managers and Service Providers***.

ESG training

ESG training is provided to relevant personnel on a regular basis, at least annually, to ensure they have the required ESG knowledge and skills to incorporate best responsible investment and stewardship practices into their day-to-day activities. As mentioned above we have a robust ESG review process where our external ESG consultant independently reviews all the ESG work done by the investment team. This allows for stewardship capabilities and training needs amongst our investment professionals to be continually assessed.

Please see below examples of the ESG training delivered and qualifications obtained over the last 12 months demonstrating the effectiveness of our current structure in supporting our ESG-integration and stewardship activities:

SUBJECT	PROVIDER	ATTENDEES	DETAIL
ESG Materiality Training	External ESG consultant, with support of our ESG Portfolio Manager	• ESG Committee Investment team • Risk and Portfolio Monitoring team	90-minute training session covering: • The Sustainable Finance Disclosure Regulation (SFDR) • Refresher on how to apply Arcmont's ESG Exclusions Policy • Refresher on how to perform sophisticated pre-investment ESG due diligence • New ESG support tools • New ESG due diligence resource checklist • New ESG Final Investment Memorandum template
ESG Engagement Training	ESG Portfolio Manager	• ESG Committee Investment team • Risk and Portfolio Monitoring team	30-minute covering the enhancements made to sustainability-linked margin ratchet programme. For further details, please see ***Principle 4: Promoting Well-Functioning Markets***.
Applied Responsible Investment Course	UN PRI Academy	• Senior Portfolio Manager • ESG Portfolio Manager Portfolio	15-hour course focused on identifying and incorporating ESG factors in investment decision making. Both attendees were awarded a certificate of completion.

Incentives to integrate stewardship and investment decision-making

We seek to align individual performance and incentives with our clients' interests while complying with the applicable Financial Conduct Authority's (FCA) remuneration requirements. The Arcmont Board is responsible for reviewing and implementing Arcmont's Remuneration Policy. The make-up of remuneration for each role is set according to function and seniority within our incentive framework. Note that individuals' contribution to the successful roll out of our stewardship approach feeds into their performance reviews and career objective discussions and therefore employees are incentivised to exercise effective stewardship in the investment process.

Further, to ensure economic alignment with Arcmont's clients, the investment team and select other members of the firm participate in our carried interest scheme and are required to commit capital via a co-investment in each fund. We believe linking rewards to the performance achieved for our clients creates greater alignment of interests. Note that we are currently exploring formalising the link between remuneration and stewardship objectives to further incentivise employees to exercise effective stewardship.

Investment in systems, processes, research and analysis

Since we became independent, we have invested extensively in our systems, focusing on improving operational efficiency. In addition to successfully setting up a new customer relationship management system, automating our portfolio monitoring process and integrating a new order management system, we have built a new data warehouse for all our client reporting which includes all ESG data, both qualitative and quantitative. This has significantly improved our internal operational effectiveness, ESG monitoring efforts as well as our ESG reporting.

Extent to which service providers are used and the services they provide

We work with a number of third parties who support our stewardship activities as shown below. Please refer to *Principle 8: Monitoring Managers and Service Providers* for further details on each provider. Note there are limited instances where Arcmont has shareholder voting rights. We therefore do no utilise third parties for proxy voting services. Please refer to *Principle 12: Exercising Rights and Responsibilities* for further details.

PROVIDER TYPE	RELEVANCE TO STEWARDSHIP ACTIVITIES
External ESG Consultant	Supports the execution and development of Arcmont's sustainability strategy, including our stewardship activities, with a specific focus on responsible investment. The firm gives us access to a number subject-specific experts. We are therefore kept up to date with best practice and have unfettered access to subject matter experts.
Third-party Research and Business Intelligence Organisation	Leverages artificial intelligence to systematically screen for information on ESG risk incidents and controversies. This has allowed us to widen and deepen our controversy screening, enhancing our decision making and monitoring. Please refer to *Principle 7: Stewardship, Investment and ESG Integration* for examples of its application.
Diversity, Equity and Inclusion ("DEI") Consultant	Engaged to assist with with improving Arcmont's DEI efforts in the workplace.
Net Zero Consultant	Engaged to assist us with developing an informed Net Zero pathway and to assess the feasibility of setting Net Zero targets for our Private Debt funds as there is no specific guidance for the asset class.
ESG accounting technology company	Engaged to assist with calculating our FY21 greenhouse gas (GHG) emissions.

We have also engaged in discussions with a number of ESG proxy data providers, one of which will be selected to further enhance our ESG-integration by allowing us to estimate ESG data where actual data is not available.

Actions taken during the period to improve the effectiveness of our governance structures and processes in supporting stewardship

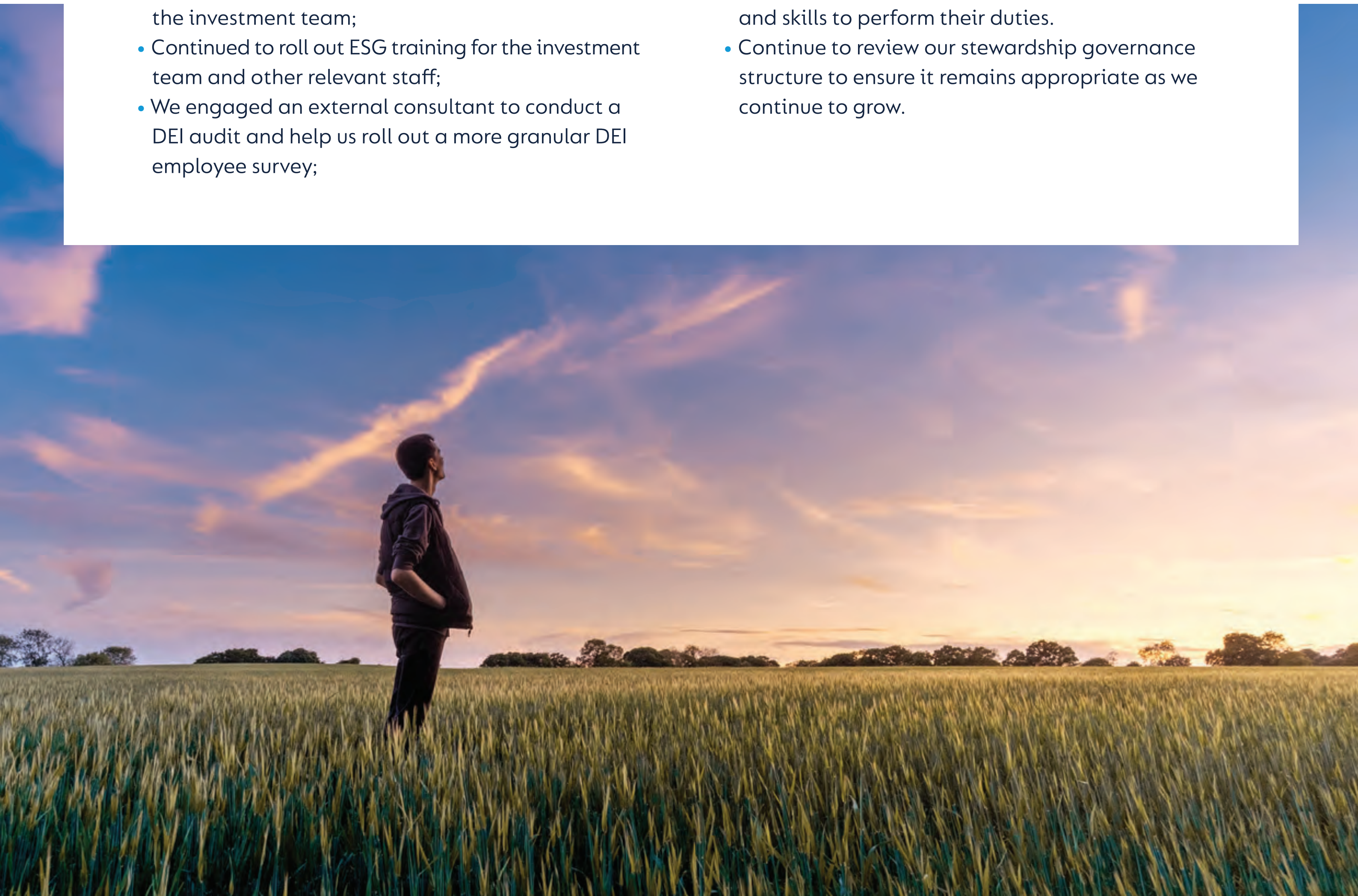
During the 12-month period ending 31 October 2022, we undertook the following activities to improve the effectiveness of our governance structures and processes in supporting stewardship:

- We reviewed and expanded the ESG Committee's responsibilities to specifically include the oversight of stewardship related strategies and programmes, this was appropriately documented in a revised set of Terms of Reference;
- We appointed one of our Co-Chief Investment Officers to the ESG Committee;
- We appointed two dedicated ESG Champions in the investment team;
- Continued to roll out ESG training for the investment team and other relevant staff;
- We engaged an external consultant to conduct a DEI audit and help us roll out a more granular DEI employee survey;
- Integrated RepRisk into our investment process to widen and deepen our ESG controversy screening; and
- Engaged in discussions with third-party ESG proxy data providers.

Future actions

In the year ahead, we plan to action the following to further improve the effectiveness of our governance structures and processes in supporting stewardship:

- Hire a Responsible Investment Analyst/Associate to support our ESG Portfolio Manager, with the long-term goal of building a dedicated internal Responsible Investment team;
- Onboard an ESG proxy data provider to allow us to deepen our ESG-integration;
- Explore formalising the link between remuneration and stewardship objectives to further incentivise employees to exercise effective stewardship; and
- Continue to roll out ESG-related training to ensure the relevant employees have the required knowledge and skills to perform their duties.
- Continue to review our stewardship governance structure to ensure it remains appropriate as we continue to grow.



Principle 3: Conflicts of Interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

At Arcmont, we seek to operate in accordance with the highest standards of compliance and ethical conduct. We have established a comprehensive conflicts of interest framework with the goal to identify, prevent and manage conflicts of interest to ensure that no client is disadvantaged. The overall conflicts framework is overseen by our Conflicts of Interest Committee.

Identifying conflicts of interest

A conflict of interest may arise in a scenario where there is an incentive to serve one interest at the expense of another interest or obligation. All employees are required to report any situation where a conflict may occur to our Compliance team. Each committee is also responsible for identifying potential conflicts of interest in the areas for which they are responsible for. This is especially relevant for our Investment Committees and Deal Approval Committee.

Our conflicts of interest escalation framework is shown below:

LEGAL AND COMPLIANCE

Advice to business units/individuals/committees/in relation to transactions

Conflicts policies, processes and disclosure

Conflicts of interest training

Conflicts of interest monitoring and control testing by compliance

EMPLOYEES

- Likely point of identification of conflicts. Each employee has a duty to follow established policies and processes in order to mitigate the conflict and/or escalate to their manager, Legal, Compliance, the Conflicts of Interest Committee or a member thereof.
- Members of other committees must consider potential conflicts and their mitigation as part of their role as a committee member.

BUSINESS UNIT MANAGEMENT

- Ensure conflicts affecting the business unit are identified and addressed, including escalating as appropriate to senior management, Legal, Compliance, the Conflicts of Interest Committee or a member thereof.
- If conflicts arise between business units, escalating to senior management, Legal, Compliance, the Conflicts of Interest Committee or a member thereof.

CONFLICTS OF INTEREST COMMITTEE MEMBERS

- Appointed to the Committee and act as a focal point for identifying and resolving conflicts.
- Employees may query potential conflicts with Committee members, who in turn may escalate unresolved or significant conflicts either to senior management or the Committee.

CONFLICTS OF INTEREST COMMITTEE

- Oversees the operation of Arcmont's conflicts of interest register, conflicts of interest governance structure, and all processes relating to identifying and resolving conflicts of interest.
- The Committee may assist with resolving conflicts of interest or escalating them to the Board for resolution.

Preventing and managing any instances of actual or potential conflicts

Arcmont is required by the Financial Conduct Authority (FCA) to prevent and manage conflicts of interest fairly, both between Arcmont and our clients, and between one client and another client. To this end, we have established a robust conflicts of interest framework to effectively manage, assess and prevent such conflicts including:

- Policies and procedures which are reviewed at least annually.
- Governance arrangements including but not limited to our Conflicts of Interest Committee which is responsible for reviewing individual conflicts of interest and overseeing our conflicts of interest framework.
- Embedding the Financial Conduct Authority (FCA) Treating Customers Fairly principles in our culture, policies and procedures as detailed in our Treating Customers Fairly Policy.
- Clearly defined and documented reporting lines and responsibilities.
- Alignment of firm and employee interests with clients' interests through the linking of remuneration to client portfolio performance.
- Contractual obligations for all employees to comply with compliance and HR policies which are designed to mitigate conflicts arising and encourage employees to report suspected conflicts.
- Mandatory conflicts of interest training for all staff as well as training on other applicable regulations and policies.

Our Compliance team and Conflicts of Interest Committee regularly review the effectiveness of our conflicts of interest framework. In addition, our compliance consultant undertakes independent quarterly monitoring of our compliance framework which includes the policies, procedures, and controls in relation to conflicts of interest.

Each year we also undertake, with assistance from our compliance consultant, a Conduct Risk Assessment which assesses the controls we have in place to reduce the risk of action taken by Arcmont or our employees having a negative outcome for our clients. The Conduct Risk Assessment includes assessments of the arrangements we have in place to prevent poor conduct from the firm or employees in relation to conflicts of interest. The risk assessment undertaken during the 12-month period ending 31 October 2022 identified no areas of high residual risk of poor conduct.

Conflicts of interest relating to stewardship

As a Private Debt asset manager, we face limited situations where an actual or potential conflict could arise in relation to stewardship. All clients who have been in their investment periods during the last 12 months are subject to the same ESG policies and requirements, meaning that their interests are aligned when we pursue ESG related outcomes. As a result, we have not experienced any actual or potential conflicts in relation to stewardship in the 12-month period ending 31 October 2022.

One example of a situation where a conflict could potentially arise in relation to stewardship is where we have employees appointed as directors of one of our portfolio companies. A director of a company has statutory duties requiring them to act in the best interests of the company. The interests of a portfolio company and the interests of our clients on a particular issue (for example, certain climate related commitments that may come at a significant cost to the portfolio company) may not always align. The monitoring and escalation framework described in this section would be used to identify such situations. Our Conflicts of Interest Committee would then be responsible for ensuring that steps are taken to adequately manage such a conflict.

Principle 4: Promoting Well-Functioning Markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Arcmont seeks to maximise risk-adjusted returns for our clients. It is therefore in our interest to identify and respond to market-wide and systemic risks which have the potential to impact this objective, as well as to support and advance initiatives that aim to reduce these risks.

Identifying market-wide and systemic risks

We have access to information and expertise on market wide and systemic risks both through our investment analysis and research (including expert calls and commissioned subject-specific reviews), and through our external ESG consultant. This information and expertise are factored into our investment process and are presented to the Investment Committee to consider prior to executing a transaction, and to the Portfolio Management Committee to consider during our holding periods. This improves our decision-making, ultimately improving outcomes for our clients.

Below we list some of the risks we have identified and managed during the reporting period. As outlined in *Principle 7: Stewardship, Investment and ESG Integration*, every prospective investment is screened against Arcmont's Universe of ESG Issues. The issues list includes systemic risks e.g., biodiversity loss (Biodiversity and Land Use), climate change (Climate Risk) as well as cybersecurity (Customer Privacy and Data Security).

RISK	RISK TYPE	DETAILS
Climate Change	Systemic	Climate change is a systematic issue affecting every company. If not managed appropriately, it may lead to a collapse of an entire industry, market, or even global economy. Climate change affects businesses in two major ways: through **(i)** direct physical impacts (physical risks) and **(ii)** the transition to a low-carbon economy (transition risks). Both risk types may alter the return profiles of exposed assets. Physical risks resulting from climate change such as extreme weather events, wildfires, droughts, and floods may have financial implications on borrowers through direct damage to physical assets or disruptions in business operations and supply chain. In addition, the transition to a low-carbon economy is resulting in regulatory, legal, technological, and market shifts. Whilst climate-related risks are generally considered longer term, transition risks related to regulatory changes alongside changing consumer preferences have the potential to strand assets and shift markets in the short-term as well. Recent years have also seen substantial physical impacts of climate change in regions across the world.
Cybersecurity Risk	Systemic	Failing to maintain an effective Cybersecurity program can result in a security incident that impacts a company's ability to operate and meet legislative and regulatory requirements. As the digital economy becomes increasingly dominant, firms become increasingly connected and increasing vulnerable to cyber-attacks which may not only affect individual firms but also the aggregate economy.
Geopolitical Issues	Market-wide	Large geopolitical shocks and continued elevated levels of political uncertainty worldwide can have adverse consequences on the economy and disrupt markets which eventually lead to the slowing of economic growth and recessionary periods.
Interest Rates	Market-wide	Rising interest rates can increase pressure on cash generation. If no mitigating measures are in place (e.g., hedging arrangements), the higher interest burden may restrict a company's ability to operate and grow. In a very adverse scenario, increased interest costs could put the company in distress which may require cost cutting measures with adverse effects on employees and potential negative knock-on effects for other stakeholders (e.g., suppliers, customers).

Post investment, we actively monitor our portfolio companies on an on-going basis. Our close and regular dialogue with portfolio companies allows us to identify issues early and take proactive actions to ensure an appropriate risk/reward profile, where necessary. The early identification of potential risks that can impact performance is essential for us to preserve the value of our clients' investments.

Responding to market-wide and systemic risks

In addition to the formal quarterly portfolio company reviews that take place, the Portfolio Management Committee can commission ad hoc portfolio reviews in response to both market-wide and systemic risks or events (e.g., Covid-19 and the Russian-Ukraine war).

Further, our ESG Committee can also commission such reviews on particular topics (e.g., greenhouse gas (GHG) emissions).

Examples of market-wide and systemic risks that we have identified and how they have been or are being addressed are showcased below. These are material macro risks that could impact the value of our clients' investments unless managed appropriately.

CASE STUDY: Managing and mitigating the impacts of geopolitical issues as well as other prevailing market factors

During 2022, in response to prevailing market risk factors, the Portfolio Management Committee instructed a review of all Arcmont portfolio companies to ascertain the degree of exposure to the Russia-Ukraine war, supply chain disruption and inflationary pressures. We subsequently increased our engagement efforts with highly exposed companies and provided our clients with a set of analyses covering the impact on each credit, keeping them well informed.

On the back of this review, we enhanced our ESG monitoring and reporting efforts where necessary. For example, one of our investments based in the Netherlands owned a company with employees based in Ukraine. Knowing this, the deal team engaged with the company to assess what actions had been taken. Management reported that the employees were relocated to Poland, Brazil and Germany with the company incurring all costs. These details were disclosed to clients as part of our quarterly ESG reporting.

CASE STUDY: Managing and mitigating the impacts of interest rate rises

In October 2022, the Portfolio Management Committee instructed a review of all Arcmont portfolio companies to ascertain the degree of exposure to interest rate rises. The investment team were required to engage with their portfolio companies to assess whether an interest rate hedging strategy was in place.

Where a strategy was in place, the team obtained details of the amount of facilities hedged, the hedge duration as well as the type of hedge in place, to assess its appropriacy. Where a strategy was not in place, the team obtained the management's rationale for not having one.

Once the information was collected, it was reviewed by the Portfolio Management Committee. Where the committee believed interest rate hedging strategies could be improved, the relevant deal teams were asked to encourage the relevant portfolio companies to implement changes to enhance their approach to better manage interest rate risk.

CASE STUDY: Mitigating climate risk

Climate risks have always been considered as part of our pre-investment ESG materiality assessment under the E pillar. However, over the last two years we have enhanced our approach.

In March 2021, we took the decision specifically to limit our exposure to certain heavy emitting industries and products, including thermal coal and tar sands mined oil. Later in the year, the investment team were instructed to assess prospective and existing portfolio companies' exposure to and management of greenhouse gas (GHG) emissions and energy consumption, specifically considering any relevant climate-related regulations.

During 2022, we introduced a qualitative assessment of climate-related risks using the Sustainability Accounting Standards Board's (SASB) Climate Risk Bulletin as a guideline. The Bulletin breaks down climate risks into three categories which can ultimately impact corporate financial performance: **(1)** physical effects, **(2)** transition to a low-carbon, resilient economy and **(3)** regulatory risk and provides the primary types of climate risks in each of SASB's industries. This allows us to identify whether the company may be exposed to climate-related risks based on its industry characteristics.

Also, during 2022, we increased our engagement efforts on climate change. As further described in ***Principle 9: Engagement***, we are now focused on offering our portfolio companies interest rate discounts to measure, publicly disclose and reduce their greenhouse gas (GHG) emissions, in line with the Paris Agreement. Not only does this allow us to mitigate a systematic risk amongst our portfolio companies, but it also improves sustainability disclosures across a wide range of industries.

A key objective for the year ahead is to further enhance our climate risk analysis. We are currently in active discussions with ESG proxy data providers to explore how we can leverage their solutions to improve our identification and monitoring of climate risks. We are specifically seeking to conduct climate scenario analysis and easily obtain climate-related data estimates where actual data is not available.

CASE STUDY: Reducing the risk of the failure of a business or group of businesses

In 2022, we defined and implemented Arcmont's "Good Governance" assessment to enhance our investment criteria and align our practices with Level 2 of the Sustainable Finance Disclosure Regulation (SFDR).

Our assessment specifically addresses the four elements defined by the regulation, namely "sound management practices, employee relates, staff remuneration and tax compliance".

We believe our criteria ensures that all our portfolio companies have the necessary foundations to ensure sustainable business performance, ultimately reducing the risk of these companies failing and causing market disruption.

Working with other stakeholders to promote continued improvement of the functioning of financial markets

We recognise that it is in our own interest, our investors, and society as a whole to have well-functioning financial markets. Accordingly, the firm and members of the firm participate in and support initiatives to promote well-functioning finance markets. Please see below examples.

INITIATIVE	EXTENT OF INVOLVEMENT	STATUS	DESCRIPTION
Investing Potential Programme	Advanced	Member	Arcmont seeks to promote workforce diversity in financial markets as we believe in the importance of cognitive diversity to support well-functioning markets. To this end, in 2021 we joined the Investing Potential Programme. To date, four A-level students have joined the Arcmont team to learn about asset management and Private Debt. The programme aims to provide work experience to under-served students in order to increase awareness of finance as a career choice, ultimately supporting a long-term aim of increasing diversity of social background in Private Credit and increasing social mobility more generally.
UN PRI Private Debt Advisory Committee (PDAC)	Moderate	Member	Our Chief Operating Officer and Chair of the ESG Committee, is a member of the UN PRI's PDAC. The purpose of the Committee is to develop solutions for the ESG challenges faced by the Private Debt asset class.
The Alternative Investment Management Association (AIMA) Alternative Credit Council (ACC) Manager's Committee	Moderate	Member	Our Chief Operating Officer and Chair of the ESG Committee is Vice Co-Chair of the AIMA ACC Manager's Committee, a global body for the private credit and direct lending space. Together, members manage $600bn of private credit assets. As an AIMA affiliate, the ACC offers educational and sound practice guides and represents the asset class through advocacy and regulatory engagement.
Taskforce on Climate-related Financial Disclosures (TCFD)	Basic	Supporter	In January 2022, Arcmont became a supporter of the TCFD. Across the public and private sector, we recognise the importance of increasing transparency of climate-related risks and opportunities, promoting more informed financial decision-making, and building a more resilient financial system. We intend to produce TCFD aligned reporting for FY22.
2021 Global Investor Statement to Governments on the Climate Crisis	Basic	Signatory	In September 2021, Arcmont supported the initiative which is coordinated by the seven Founding Partners of The Investor Agenda, calling on governments to accelerate action to tackle the climate crisis, including demanding that governments impose mandatory climate risk disclosure requirements aligned with TCFD recommendations.
UN PRI	Basic	Signatory	Arcmont has been a member of the UN PRI since July 2013, when it was part of BlueBay and since December 2019 as Arcmont. Although we were not required to submit PRI reporting until the 2022 reporting cycle (covering the 2021 calendar year), we took the decision to submit voluntary reporting for the 2021 cycle (covering the 2020 calendar year) in order to obtain an assessment. Please refer to ***Principle 5: Review and Assurance*** for the results of this assessment.

Note that, together with a consultant, we are assessing the feasibility of becoming a signatory to the Net Zero Asset Managers Initiative (NZAMi), a commitment vehicle that establishes requirements and timeframes for Net Zero target setting, as there is currently only limited guidance for private markets, and Private Debt in particular, provided by NAZMi.

An objective for the year ahead is to produce a white-paper on Net Zero targets for Private Debt asset managers. We hope that our research and the publication and promotion of our findings will contribute to the promotion of well-functioning financial markets.

CASE STUDY: Promoting well-functioning financial markets

Building on our commitment to ESG advocacy, in December 2021 we released an ***ESG Whitepaper*** on ESG integration in the Private Debt industry, in conjunction with our external ESG consultant, KKS Advisors. The combined positioning of Arcmont and KKS Advisors as two of the market leaders in Private Debt investing, ESG, and sustainable investment puts us at the forefront of the unfolding ESG revolution in the Private Debt industry. In an industry where expectations around ESG integration are outpacing the practices of many lenders, we felt it was important to offer our insights in the hope of educating and inspiring the industry to cement its place as a key player in the creation of more sustainable financial markets.

Actions taken during the period

During the 12-month period ending 31 October 2022, we undertook the following activities to respond to market-wide and systemic risks and to promote well-functioning financial markets:

- Conducted a market-risk analysis for all portfolio companies in response to prevailing market conditions to identify and take appropriate action to mitigate any negative impacts;
- Conducted a market-risk analysis for all portfolio companies in response to interest rate rises to ensure our portfolio companies were appropriately protected;
- Enhanced our climate risk identification and mitigation practices;
- Enhanced our E&S Target Improvement Plan Programme to improve our climate risk management practices;
- Enhanced our investment criteria by defining and implementing our “Good Governance” assessment;
- Became a public supporter of the Taskforce on Climate-related Financial Disclosures (TCFD);
- Conducted a feasibility assessment of becoming a signatory to the Net Zero Asset Managers Initiative (NZAMi);
- Continued our participation Investing Potential Programme to promote workforce diversity in financial markets;
- Our Chief Operating Officer was appointed a member of the UN PRI Private Debt Advisory Committee (PDAC); and
- Published an ESG Whitepaper on ESG integration in the Private Debt industry.

Assessment of effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets

To assess our effectiveness in identifying and responding to market-wide and systemic risks, investors can look at our low performance volatility and our demonstrated track record.

In terms of our effectiveness in promoting well-functioning financial markets, it is difficult to measure the extent of our contribution or effectiveness of our participation in the aforementioned initiatives. There is therefore scope for improvement, and we intend to get more actively involved in existing and new initiatives to deliver measurable outcomes that mitigate systemic and market-wide risks.

Future actions

In the year ahead, we plan to action the following to improve further our effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets:

- Continue to commission portfolio reviews in response to market events and trends;
- Further enhance our climate risk analysis by onboarding an ESG proxy data provider;
- Join specific UN PRI and Net Zero Asset Managers Initiative (NZAMi) working groups, with a specific focus on stewardship and climate change;
- Produce Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting for FY22);
- Produce a whitepaper on Net Zero targets for Private Debt asset managers;
- Join Net Zero Asset Managers Initiative (NZAMi) if feasible;
- Measure our contribution and effectiveness of our participation in initiatives; and
- Continue to participate in the Investing Potential Programme.

Principle 5: Review and Assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Stewardship policies

We have implemented dedicated ESG policies as part of our efforts to integrate stewardship into our investment process. These policies provide transparency on our ESG processes and practices and serve as a formal guide to readers. These policies currently include our ***Responsible Investment Policy*** and ***ESG Exclusions Policy***, both of which are publicly available on our website. Like all Arcmont policies, they are reviewed on, at least, an annual basis. Our ESG Committee is ultimately responsible for this. The policies apply to 100% of Arcmont's assets under management.

As outlined in ***Principle 2: Governance, Resources and Incentives***, we have a robust ESG framework in place to ensure the implementation of our ESG policies. Please refer to the relevant section for further details.

CASE STUDY: Reviewing ESG policies to ensure they enable effective stewardship

Following our annual policy review, our ***Responsible Investment Policy*** (previously titled ESG Investment Risk Management Policy) was revised to address the gaps identified by our 2021 UN PRI assessment, and to reflect changes in actual practice which includes the enhancements made to our pre-investment ESG materiality assessment, specifically the integration of RepRisk, the Sustainable Development Investments Taxonomy as well as our new climate risk assessment.

Further, in response to our investors' increasing focus on engagement, specifically voting, as well as climate risk management, we will be publishing standalone policies to address these topics by the end of the year.

Ensuring our stewardship reporting is fair, balanced and understandable

As further described under ***Principle 6: Client and Beneficiary Needs***, we are committed to providing timely, transparent, and comprehensive reporting to investors on our ESG activities, both at the corporate and product levels, giving them clear insights into our stewardship activities. To ensure all reporting is fair, balanced, and understandable, we follow a stringent review process to ensure that all communications are written in plain language, contain relevant content and are easy to read.

Our internal review process requires at least a four-eye internal review. We may also leverage external consultants to support the drafting of certain reports. Depending on the content and intended audience, external communications may be reviewed by an external party review to ensure compliance with the relevant regions' regulatory requirements.

CASE STUDY: External Review - SDFR Disclosures

The funds Arcmont acts as portfolio manager to are EU domiciled Alternative Investment Funds (AIFs) and are therefore in scope of the EU ESG-related regulations including the Sustainable Finance Disclosure Regulation (SFDR). We included the appropriate disclosures under the Level 1 regulation in the 2021 audited accounts for our Article 8 funds which provide transparent information on the sustainability characteristics of the products, giving readers clear insights into our stewardship activities. Prior to publication, to ensure the requirements of the regulation had been sufficiently satisfied, we engaged external legal counsel to review and provide input on the disclosures.

As part of our year end audit procedures, our auditors reviewed these disclosures to confirm they were consistent with the financial statements and had been prepared in accordance with applicable legal requirements. Note that we are closely monitoring the developments of the Level 2 requirements to ensure we are well prepared to meet them. We are also exploring the possibility of getting these disclosures audited to give our investors further assurance.

CASE STUDY: External Assurance - Annual PRI Reporting

For the first time as an independent entity, Arcmont participated in the 2021 UN PRI annual assessment covering the 2020 calendar year. We achieved four stars in the "Fixed income – Private Debt" module and three stars in the "Investment & Stewardship Policy" module. It is important to note that the results are based on our approach in the 2020 reporting period. Therefore, the results do not reflect the further enhancements we have since made.

Since our submission in early 2021, we have made noteworthy upgrades which we expect to be rewarded for in the scores we achieve in future UN PRI assessments. Nonetheless, we have reviewed the results in detail and identified the improvement areas that remain relevant to our existing practices. We subsequently have formulated an action plan to address these ahead of the upcoming reporting cycle.

Assessing the effectiveness of our stewardship activities

In the 12-month period ending 31 October 2022, we undertook the following activities to ensure our stewardship approach remains relevant and is successfully implemented across our investment process:

- Reviewed our ESG policies, subsequently revising our ***Responsible Investment Policy*** (previously titled ESG Investment Risk Management Policy). Please refer to the above case study for further details;
- Analysed the results of our UN PRI assessment, identifying areas of improvement that have not yet been addressed since our 2021 submission;
- Engaged external legal counsel to review our Sustainable Finance Disclosure Regulation (SFDR) disclosures;
- Engaged external legal counsel to provide input to our Sustainable Finance Disclosure Regulation (SFDR) approach following the release of the final Regulatory Technical Standards (RTS);
- Performed a stewardship gap analysis together with our external ESG consultant, leveraging the Stewardship Code principles and UN PRI guidance in addition to conducting a peer review; and
- Performed an internal ESG materiality assessment together with our external ESG consultant to ensure our efforts are resources were focused in the right areas. Please see our ***2021 Sustainability Report*** for the results of this assessment.

These activities have identified areas of improvement to enhance our stewardship-related policies and processes that are detailed throughout this report.

Future actions

In the year ahead, we plan to action the following to strengthen and improve our stewardship policies and processes:

- Address the improvement areas identified on the back of our UN PRI assessment ahead of the next reporting cycle;
- Implement a dedicated Voting Policy;
- Implement a dedicated Climate Risk Management Policy;
- Review all stewardship-related policies during the year;
- Prepare and publish the appropriate Level 2 Sustainable Finance Disclosure Regulation (SFDR) disclosures; and
- Explore opportunities for third-party assurance procedures, specifically in relation to the Sustainable Finance Disclosure Regulation (SFDR) disclosures.

Investment Approach

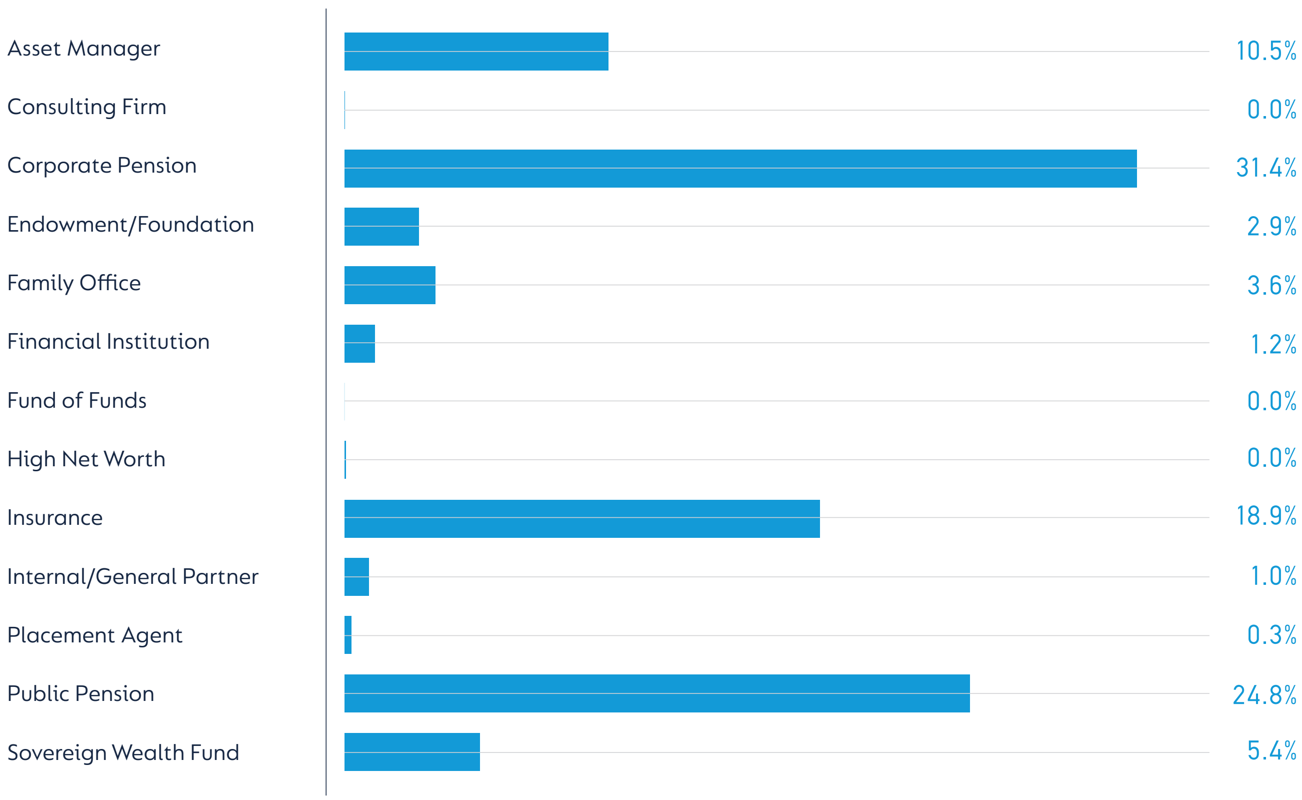
Principle 6: Client and Beneficiary Needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Investor base breakdown

Arcmont is one of Europe's leading Private Debt asset managers with over **€22 billion**[3] of capital raised from over **375 investors** since inception, with a broad investor base as illustrated below.

INVESTORS BY TYPE



[3] Includes estimated leverage and separately managed accounts.

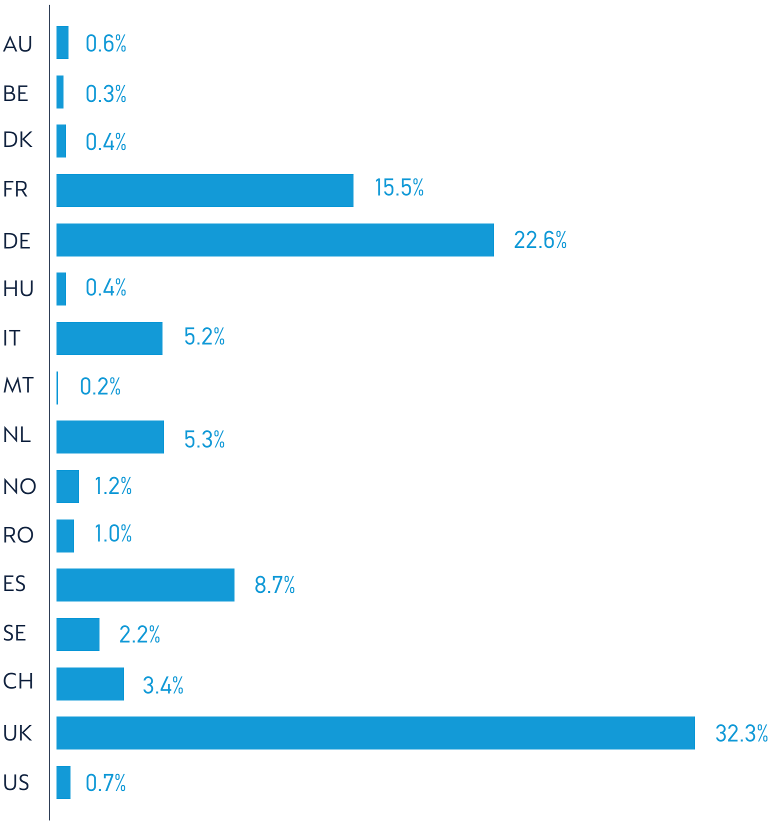
INVESTORS BY GEOGRAPHY

Australia	0.37%
Austria	0.82%
Bahrain	0.04%
Belgium	0.96%
Bermuda	0.16%
Brazil	0.03%
Canada	7.54%
China	0.45%
Cyprus	0.08%
Denmark	0.08%
Finland	6.26%
France	0.19%
Germany	11.84%
Ireland	0.15%
Israel	3.04%
Italy	4.14%
Japan	5.78%
Kuwait	2.68%
Luxembourg	0.01%
Netherlands	5.14%
Norway	2.03%
Saudi Arabia	0.12%
Singapore	2.08%
South Korea	2.58%
Spain	0.18%
Sweden	5.83%
Switzerland	1.62%
Taiwan	0.31%
UAE	0.10%
UK	20.16%
US	15.23%

Asset under management breakdown

As of 30 September 2022, we have **committed** **€21 billion** in over **150 portfolio companies** across **16 geographies**[4].

AUM BY GEOGRAPHY



		€bn
AU	Australia	0.1
BE	Belgium	0.1
DK	Denmark	0.1
FR	France	3.3
DE	Germany	4.8
HU	Hungary	0.1
IT	Italy	1.1
MT	Malta	0.0
NL	Netherlands	1.1
NO	Norway	0.3
RO	Romania	0.2
ES	Spain	1.8
SE	Sweden	0.5
CH	Switzerland	0.7
UK	United Kingdom	6.8
US	United States	0.1
Grand Total		**21.1**

AUM BY STRATEGY

		€bn
A	Capital Solutions	0.4
B	Direct Lending	11.4
C	Senior Lending	9.3
Grand Total		**21.1**

AUM BY ASSET TYPE

		€bn
A	Debt	20.5
B	Equity	0.6
Grand Total		**21.1**

[4] Country of risk.

Investment time horizon we consider appropriate to deliver to the needs of clients

The majority of vehicles offered by Arcmont are closed-ended, with investment periods of three to four years, followed by a two- or three-year harvesting period. These timeframes were designed based on the team's experience and investment realisation timeframes as well as our investors' target returns.

Furthermore, our funds allow for two one-year extensions to ensure our clients receive the most appropriate value for their investments with an orderly exit for those that remain unrealised, thus avoiding forced liquidations that are not in the best interest of our portfolio companies and clients.

In addition to closed-ended commingled funds, Arcmont also manages certain separately managed accounts ("SMAs"). The timeframe for each SMA is designed to specifically meet the needs of the underlying investor and includes the possibility for the SMA to be an evergreen structure to allow the vehicle to maintain its underlying exposure through recycling.

How we have taken account of the views of clients

- **Investor due diligence**

Prospective investors undertake detailed due diligence of Arcmont prior to making a commitment. This gives them clear insight into our operations and investment processes, including those relating to our stewardship activities. Any additional investor requirements are documented in a side letter. This means that from the outset, investors' expectations are clearly documented and understood.

- **Stewardship Policies**

As part of our recent stewardship policy review process, we looked at our existing and prospective investor side letters to assess whether there were any specific ESG topics that we should look to address in our ESG Exclusions Policy. We are pleased that our ESG Exclusions Policy continues to be in line with our investors' responsible investment objectives.

Despite there being limited instances for Arcmont to participate in voting activities, in response to investor demand, we will shortly be publishing a Voting Policy to clearly state this as well as outline the approach we will take, should we get the opportunity to vote.

- **Product Offering**

Arcmont has a diverse global investor base, and while unified by their appetite to invest in Private Debt, many of our investors have specific aims or requirements driven by their type, geography or strategic goals. As such, we have invested significant time and resources in enhancing our product offering to meet these objectives, including their ESG and Stewardship objectives as exemplified by the case study below.

CASE STUDY: Sustainable Finance Disclosure Regulation (SFDR) Article 8 Funds

Over the years, investors have been increasingly seeking ESG-solutions. In the advent of the Sustainable Finance Disclosure Regulation (SFDR), this has translated into investors seeking Article 8 and Article 9 financial products. Recognising this, our team developed and implemented our bespoke Environmental and Social Target Improvement Plan Programme to ensure our latest funds meet the Article 8 criteria. This, combined with our ESG-integrated process in which we systematically consider the sustainability risks of our investments, has enabled all Alternative Investment Funds (AIFs) launched from April 2021 to be categorised as Article 8.

Communications to investors about our stewardship and investment activities

The Client Services team manages all investor relations during the life of our funds and beyond, leveraging the firm's expertise and resources to provide seamless servicing. Where investor requests relate to Arcmont's ESG and stewardship activities, our dedicated ESG Portfolio Manager or Chief Operating Officer will assist as subject matter experts. In addition to the unfettered access to the Client Services team and receiving quarterly product level ESG reporting ESG reporting (see details below), we host regular investor updates via video-link as well as in-person in addition to our Annual General Meetings, during which our stewardship activities are discussed.

CASE STUDY: Improving investor communication in response to prevailing market risks

During the 12-month period ending 31 October 2022, specifically during Q1 and Q2 2022, we increased our communication to investors in response to the Russia-Ukraine war, supply chain disruption and inflationary pressures. We increased the frequency and depth of our investor communications to keep them well informed of the impact of these events on our funds to alleviate their concerns. We also proactively enhanced our reporting, providing investors with the set of analyses described in *Principle 4: Well-Functioning Markets*. Where a company was heavily impacted by these risks, we provided information on the extent of the impact, management' actions to mitigate the impact as well as our actions to support the company.

Type of stewardship information provided, methods and frequency of communication

At Arcmont, we are committed to providing timely, transparent, and comprehensive reporting to our investors on our investment and ESG activities, giving them clear insights into our stewardship activities. In terms of ESG and stewardship specifically, investors receive quarterly product level ESG reports in addition to the Sustainable Finance Disclosure Regulation (SFDR) periodic disclosures in our funds' audited financial statements, as well as our annual corporate sustainability report.

CASE STUDY: Quarterly product level ESG reports for investors

The quarterly product level ESG reports contain information on our approach to ESG, details of any material ESG events in the relevant period, if any, and a summary of the ESG characteristics of the fund. The reports also include each borrower's ESG Investment Impact Score, updates on the ESG Monitoring Areas identified over the course of our investment, details of our engagement efforts, as well as details on the borrower's alignment to the UN Sustainable Development Goals (SDGs) if applicable.

Looking forward, we expect the depth and scope of our ESG reporting will increase as our responsible investment process continues to evolve, specifically as we look to better integrate quantitative ESG data into our investment process, continue to drive our engagement activities, and look to generate ESG performance data at the corporate level.

Actions taken during the period

During the 12-month period ending 31 October 2022, we undertook the following activities to strengthen our insight of investor views related to stewardship:

- Centrally stored questions from request for proposals (RFPs) and questionnaires, including our responses. This included ESG and stewardship-related questions, to allow us to identify key topics and trends that were of particular interest to our investors;
- Our ESG Portfolio Manager and Chief Operating Officer regularly spoke to clients, consultants and peers on ESG and stewardship-related topics;
- We prepared this inaugural Stewardship Report in response to investor demand;
- We performed formal quarterly reviews of our investor side letters, including those relating to stewardship, to ensure their needs continue to be met; and
- We enhanced our internal systems to better record conversations with investors.

Future actions

In the year ahead, we plan to action the following to further strengthen our insight of investor views related to stewardship:

- Explore seeking regular direct investor feedback e.g., via an investor wide survey;
- Explore enhancing and standardising our engagement-data and case-study reporting through alignment with disclosure frameworks from the Investment Consultants Sustainability Working Group (ICSWG); and
- Publish a Voting Policy in response to investor demand.

Principle 7: Stewardship, Investment & ESG Integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

At Arcmont, we believe that ESG factors are drivers of investment value and sources of investment risk. They are therefore systematically considered at every stage of our investment process to protect the value of our clients' assets. Our approach is documented in our ***Responsible Investment Policy*** and applies all assets under management.

Given the maturity of our loans is typically seven years, we have a strong focus on pre-investment ESG due diligence to mitigate the risk of ESG controversies arising during our holding periods and to protect the value of our clients' assets. We also encourage borrowers to improve their environmental and social ("E&S") performance via our E&S Target Improvement Plan ("TIP") Programme, as we believe this will result in improved financial performance.

Processes used to integrate stewardship and investment

Overleaf we outline our ESG-integrated investment process. For a detailed description of each step please refer to the Responsible Investment section of our ***2021 Sustainability Report***.

OUR 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

Material ESG issues

In conjunction with subject matter experts, we created a bespoke tool titled "Arcmont's Universe of ESG Issues". The tool captures the most relevant and most material ESG issues 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 issues are prioritised for assessing investments, both at the pre-investment stage and during our holding period. We recently added this list as a checklist in the final investment memorandum to ensure each issue is systematically considered for every prospective investment.

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

Sustainable Finance Disclosure Regulation (SFDR) Article 8 Products

As previously mentioned, all Arcmont funds launched after April 2021 are classified as Article 8 under the Sustainable Finance Disclosure Regulation (SFDR).

As mentioned in ***Principle 4: Promoting Well-Functioning Markets***, at the pre-investment stage we now specifically conduct a "good governance" assessment to ensure every prospective borrower follows sound management practices, employee relations, staff remuneration, and tax compliance. Note these are captured under the governance issues listed above.

Further, for the investments in these funds, we specifically prioritise the environmental and social factors outlined above for our engagement activities. Please refer to ***Principle 9: Engagement*** for further details on how we engage with borrowers.

Examples of how information gathered through stewardship has informed acquisition, monitoring and exit decisions

- **ESG Exclusions Policy used to inform acquisition decisions**

At the deal origination stage, business activities that are deemed too risky from an ESG risk perspective are filtered out with an initial screening framework. In general, we believe it is preferable to engage with portfolio companies on ESG matters to try and correct any controversial practices and improve a borrower's ESG profile. However, at the deal origination stage, we believe that some activities are fundamentally counter to our responsible investment objectives and those of our investors by virtue of their operations. We therefore elect to limit our exposure to borrowers engaging in these activities using a combination of activity-specific and principles-based exclusions across all of our funds as detailed in our *ESG Exclusions Policy*.

During the 12-month period ending 31 October 2022 four deals were rejected due to a lack of alignment with our ESG Exclusions Policy and 12 deals were rejected due to wider ESG concerns.

- **RepRisk used to inform acquisition and monitoring decisions**

As mentioned in ***Principle 2: Governance, Resources and Incentives***, we utilise RepRisk for controversy screening. This allows us to make timely, better informed investment and monitoring decisions as the company used artificial intelligence to screen companies on a daily basis.

In terms of investment decision making, although the situation has not yet arisen, should a major controversy be identified by RepRisk prior to investment, further due diligence would be required. We would specifically review the severity and frequency of the event, the company's degree of complicity as well as the measures a company has implemented to prevent repeats of the incident. If preventative measures are not adequate to prevent a reoccurrence, the investment will not be pursued.

In terms of monitoring activities, RepRisk prompts us to engage with borrowers on issues in a timely manner. For example, RepRisk recently identified a cyberattack against one of our portfolio companies. Our ESG Portfolio Manager flagged this event to the deal team who were asked to engage with management. Fortunately, due to our strong relationship with the borrower, management had already flagged the event to the deal team and provided them with details on the impact, how it was being managed and the controls they were putting in place to ensure the event did not reoccur.

Since RepRisk was integrated into our investment process in September 2022, 100% of existing and prospective portfolio companies have been screened.

- **ESG Investment Impact Score used to inform acquisition and monitoring decisions**

Every prospective investment undergoes a comprehensive ESG materiality assessment and is assigned an ESG Investment Impact Score. The ESG Investment Impact Score ranges from -6 (Very High Impact) to +6 (Very Low Impact) and captures the overall likelihood of a financial impact on the investment due to ESG risks, given the information available.

Our ESG analysis begins with the investment 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).

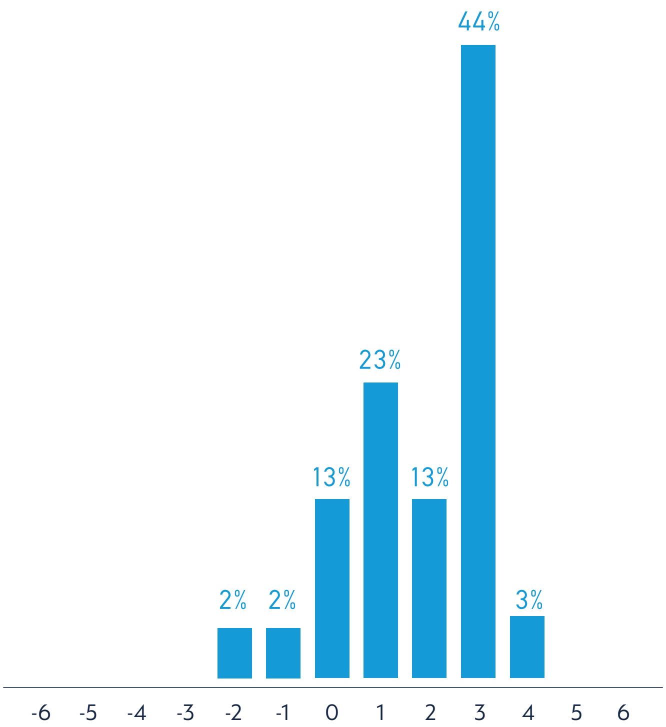
Next, prospective investments receive a rating along each pillar of E, S, and G according to their potential financial impact on the investment. These are then aggregated to get an overall ESG Investment Impact Score. We have an internal policy not to invest in a portfolio company with an ESG Investment Impact Score of less than -3 (High) to protect the value of our clients' assets.

During the 12-month period ending 31 October 2022, no deals were rejected due to their scores. Please note this is not an indication of a lack of effectiveness, in fact this reflects the strength of our ESG integration as our ESG Portfolio Manager and external ESG consultant are engaged prior to conducting the assessment to form a view where there are material ESG concerns at the outset, which is more often than not, conservative.

Post-investment, on at least a quarterly basis, the deal teams engage with portfolio companies on the ESG Monitoring Areas identified and the ESG Investment Impact Scores are updated based on the updates received. This allows us to track and closely monitor the ESG profiles of our businesses over our holding period moving to take appropriate action should the score continue to lower, to protect our clients' interests.

Please note that the ESG Investment Impact Scores of our borrowers are generally on an upwards trajectory as borrowers and sponsors increasing recognise the importance of managing ESG risks and as ESG-related regulations are on the rise. Please see below a summary of the ESG Investment Impact Scores of our portfolio companies as of 30 June 2022[5].

OVERALL ESG SCORES



Ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues

For all of the ESG service providers detailed in *Principle 2: Governance, Resources and Incentives* we have contracts in place detailing our expectations and scope of work.

[5]The 30 September review cycle was in progress at the time of writing.

Principle 8: Monitoring Managers and Service Providers

Signatories monitor and hold to account managers and/or service providers.

We use a variety of service providers to support our operations and the services provided to our investors, including ESG service providers. Prior to onboarding any key service provider, we conduct comprehensive due diligence which includes but is not limited to a review of:

- The relevant service areas e.g., processes, technology, quality of data, staff and senior management, platform useability
- Any cybersecurity risks
- Operational and financial controls
- Risks around GDPR and data protection compliance as well as any other applicable laws, rules or regulations
- The providers commitment to Arcmont
- Reference and background checks
- Control reports e.g., International Standard on Assurance Engagements (ISAE) reports

As outlined in ***Principle 2: Governance, Resources and Incentives***, during the reporting period we utilised the below ESG services providers to support us with our stewardship related activities.

- KKS Advisors - External ESG consultant
- RepRisk - Third-party research and business intelligence organisation on ESG risks
- Diversity, Equity and Inclusion (DEI) Consultant
- Net Zero Consultant
- ESG accounting technology company, specifically engaged to measure our greenhouse gas (GHG) emissions

To date, we have not utilised ESG data providers to support our investment process due to our focus on mid-market private investments. We have instead conducted bottom-up fundamental analysis on prospective investments, with support of our external ESG consultant and bespoke support tools. However, in the advent of private market focused ESG data providers, we are actively seeking to implement an ESG proxy data provider into our investment process. We are in discussions with a number of providers and intend to onboard one imminently.

As previously mentioned, we have limited opportunities to participate in votes and therefore do not utilise external proxy voting services.

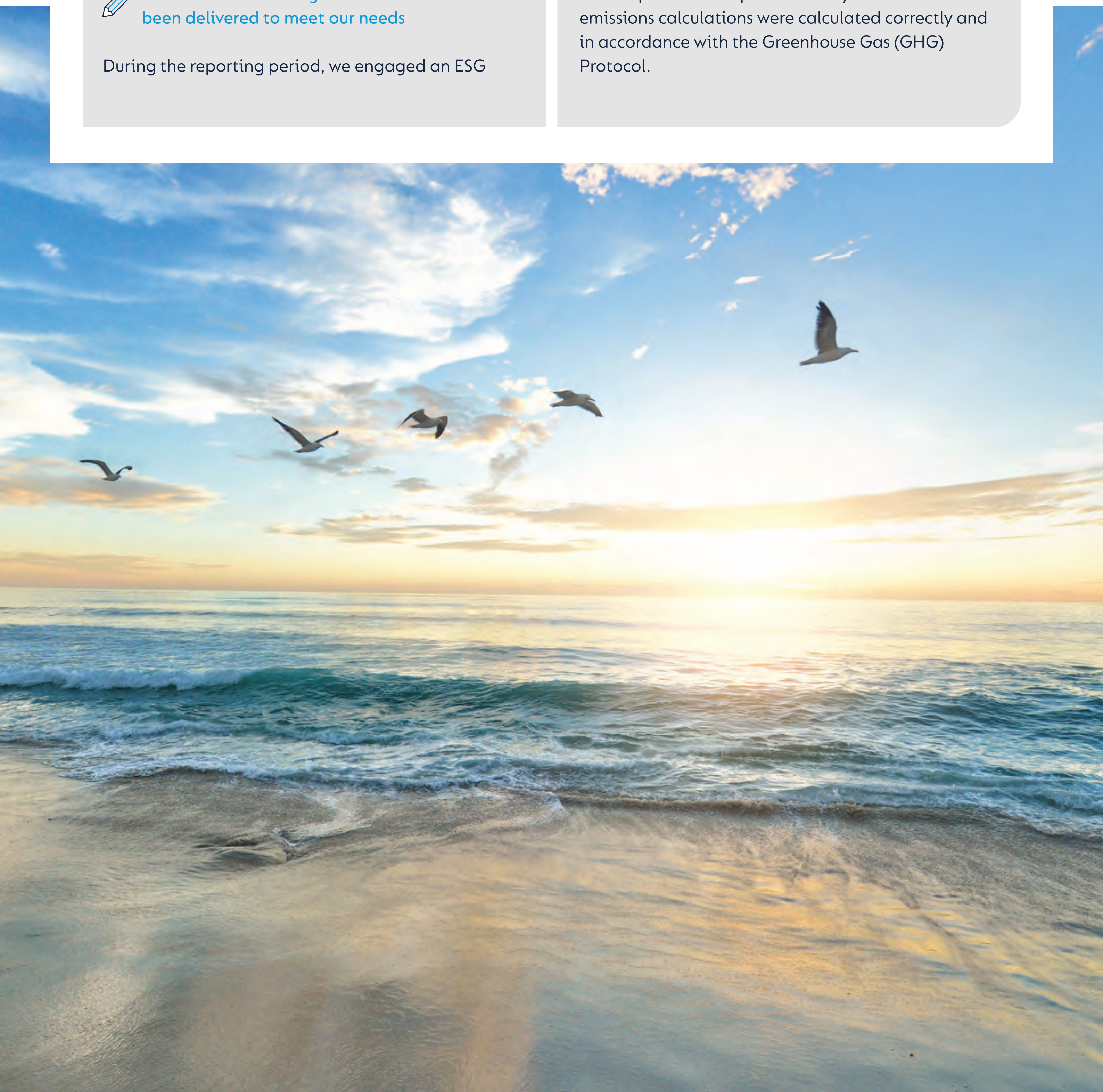
CASE STUDY: Cyber security review

During the reporting period, we commissioned ACA Aponix to perform cyber security due diligence on our key vendors to ensure appropriate safeguards are in place to protect Arcmont's data as well as the data of our investors. First, all vendors were classified into certain categories based on the type and volume of data handled. Next, a tailored questionnaire was sent to each vendor. Once the responses were received, ACA Aponix reviewed the information and conducted their own tests. Subsequently, each vendor was assigned a score based on the risk posed to Arcmont. In total, eighteen vendors were assessed and only three achieved scores below a desired level. Of the three, only one vendor was deemed to handle material data.

Conversations were held with this vendor who agreed to correct the issues identified within a given timeframe. We are pleased to report that the weaknesses identified have now been addressed. Arcmont is committed to conducting this assessment on an annual basis going forward.

CASE STUDY: Ensuring the services that have been delivered to meet our needs

During the reporting period, we engaged an ESG accounting technology company to assist us with calculating our carbon footprint for financial year 2021. As this was the first time we conducted this assessment, and as we are aware that carbon emissions data is prone to reporting errors, we asked our Net Zero consultant to review and check these calculations prior to developing a Net Zero plan for us to ensure the quality and accuracy of the results. We are pleased to report that they confirm that the emissions calculations were calculated correctly and in accordance with the Greenhouse Gas (GHG) Protocol.



Engagement

Principle 9: Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

As a signatory of the UN PRI, we leverage the definition of engagement provided by the initiative, specifically "interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure."

As mentioned in ***Principle 1: Purpose, Strategy and Culture***, we integrate ESG factors with two key objectives, one of which is to encourage borrowers to improve their ESG performance. We firmly believe that improved ESG performance will drive financial performance, better protect the environment and foster societal wellbeing. Please note that the expectations of the effectiveness of our engagement activities should take into consideration the fact that as a Private Debt asset manager, Arcmont has more limited mechanisms to exercise influence over portfolio companies.

We may proactively initiate dialogue with portfolio companies on ESG issues, or reactively in response to an external event or development. For example, as described in ***Principle 4: Promoting Well-Functioning Markets***, during the reporting period we increased our engagement efforts in response to the Russia-Ukraine war as well as to increasing interest rates. This is particularly relevant where a material ESG event occurs. In such an instance, we will engage to understand how the event arose, the impact and the measures being implemented as a result. Please refer to the cyberattack incident in ***Principle 7: Stewardship, Investment and ESG Integration*** for an example.

Quarterly engagements

As noted in ***Principle 7: Stewardship, Investment and ESG Integration***, we conduct an ESG materiality assessment on every prospective borrower as part of our routine pre-investment due diligence process. On the back of this assessment, financially material ESG issues are identified that require ongoing monitoring (ESG Monitoring Areas).

Post-investment, the deal team will engage with portfolio companies formally on a quarterly basis and raise the ESG Monitoring Areas that have been identified, asking management for any relevant updates as well as an update on general ESG performance and objectives. This provides a natural mechanism for stewardship, particularly targeted engagement (see below). Note that at Arcmont, the deal team that execute the transaction are the same team that will monitor the portfolio company over the life of our investment. We believe this structure fosters better relationships, improving the likelihood of the success of our engagements.

Targeted engagements

The structure of the investment will determine our engagement approach as summarised below.

INVESTMENT STRUCTURE	ENGAGEMENT METHOD
Debt only / debt and minority equity position	Sustainability linked margin ratchets
Debt and significant (<20%) equity position	Tailored ESG engagement plan
Majority equity owner following a restructuring	Tailored ESG engagement plan

(i) Sustainability linked margin ratchets

For investments where we are solely lenders, or where we are lenders with minority equity positions, we have more limited mechanisms to exert influence over borrowers than the majority equity owners.

To overcome this, we developed and implemented a sustainability linked margin ratchet programme, Arcmont's Environmental and Social ("E&S") Target Improvement Plan ("TIP") Programme, with margin discounts awarded to borrowers who improve their E&S performance. This approach leverages our control over the cost of capital to gain influence over borrowers' E&S management practices, thus bypassing the constraints on engagement traditionally faced by private lenders.

The programme was implemented at the start of April 2021 and has been offered to every new primary borrower since. Although the programme is voluntary and our portfolio companies are not required to participate, we actively engage to encourage them to sign up, specifically relaying the benefits of improving their ESG profiles. We have an internal policy to offer every new primary borrower since April 2021 the opportunity to participate in the programme.

Each E&S TIP typically comprises three progressive sustainability performance targets centred around a material environmental or social issue the borrower faces. We employ a bespoke, materiality first approach when designing our E&S TIPs, focusing 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 all E&S TIPs are tailored to the characteristics of the borrower, incorporating factors such as its sector, location, and current approach to managing the relevant E&S issues.

To ensure that each E&S TIP is relevant, core and material to the borrower's overall business, we follow the Sustainability Linked Loan Principles ("SLLPs") published by the Loan Market Association, where possible, utilising a bespoke SLLP scorecard to easily assess alignment and identify gaps to be addressed.

During the 12 months ending 31 October 2022, we agreed 10 E&S TIPs. Note that each plan is bespoke. Because of this, the details of each plan are agreed post-closing and involve in depth discussions with borrowers. We are therefore in the discussion phase with the majority of new borrowers and expect a number of the plans to be agreed and documented later this year.

Please see below an example of a recent E&S TIP.

CASE STUDY: E&S TIP – Promoting the transition to renewable energy

In December 2021, Arcmont invested in a global retail company. At the pre-investment stage, we became aware that 100% of the company's energy came from non-renewable sources. Given the vast scale of its operations - 21 retails stores in Australia, 14 in the USA and 8 in the UK and Europe and 166 production sites across 16 countries – we deemed this to be a material issue for the business, especially in light of increasing energy prices and climate regulations in its core markets.

Post-closing, we engaged with the company to seek to address this issue, and, in August 2022, we successfully documented an E&S TIP that financially incentivises the company to transition from using energy from non-renewable sources to renewable sources, please see below an outline of the plan.

	IMPROVEMENT TARGET 1	IMPROVEMENT TARGET 2	IMPROVEMENT TARGET 3
Sustainability Performance Targets	Increase the Renewable Energy Ratio to 25% for FY23	Increase the Renewable Energy Ratio to 50% for FY24	Increase the Renewable Energy Ratio to 75% for FY25
Key Performance Indicators	Renewable Energy Ratio (%): the % of total energy from renewable energy sources		
Evidence	Purchase agreement of Energy Attribute Certificates (EACs)		
Baseline Data	0% in FY2021		

An Energy Attribute Certificate is a certificate providing information about the environmental attributes of one megawatt hour (MWh) of electricity. Wind, solar and biomass generators produce electricity that has not emitted any carbon during its creation. Energy Attribute Certificates label that electricity as renewable, enabling companies to report lower Scope 2 emissions while demonstrating demand for renewable energy generation.

In terms of the outcome of our engagement, the first test date has not yet occurred. However, we are pleased to report that the company has confirmed that they have purchased the necessary Energy Attribute Certificates, to meet Target 1 at the end of FY23. Note that companies must purchase the exact amount of Energy Attribute Certificates to match their electricity consumption in advance for a given time period and location.

(ii) Tailored ESG Engagement Plans

In some instances, our investments take on an equity element. In the rare instances where we hold significant equity ownership (>20%), or where we have become majority owners of a business following a restructuring, we are committed to developing targeted engagement plans to better manage identified material ESG risks in a robust manner and to limit any potential negative external impacts. The engagement plans focus on performance gaps and require borrowers to report on measures implemented to improve performance bi-annually and provide data on key performance indicators annually.

CASE STUDY: Tailored ESG engagement plan for a portfolio company where we hold significant equity

We hold c. 45% equity in a business alongside our debt position. For this particular business, we are able to exert influence and are taking the opportunity to improve its ESG profile as we believe this will lead to a higher sustainable long-term value.

During the pre-investment ESG materiality assessment, we identified Greenhouse Gas (GHG) Emissions, Climate Risk and Employee Well-Being Health and Safety as material issues to be prioritised. We subsequently collected and analysed available data and developed a plan for the upcoming year which includes requiring the company to measure its greenhouse gas (GHG) footprint, conduct a formal climate risk assessment, and implement the measurement and tracking systems required to track a defined set of health and safety key performance indicators. The overarching objective in the first year is to generate baseline data and identify improvement areas to address and prioritise. In subsequent years, we will set ambitious improvement targets.

CASE STUDY: Tailored ESG engagement plan following a restructuring

A restructuring took place for one of our portfolio companies following consistent weak operating performance and a breach of financial covenants. As part of the transaction, Arcmont became a majority owner of the portfolio company. The primary focus was to first implement measures to improve performance. Now that the company has demonstrated strong performance and continuous improvements to operations, we are looking to improve the ESG profile of the business as we believe this will lead to a higher sustainable long-term value. The overarching short-term objective is to build out a robust ESG governance framework, select annual key performance indicators to monitor, and then generate robust baseline performance. We will then look to set objectives and informed time-bound targets. The goal of subsequent years will then be to track and measure the impact of our efforts.

Actions taken during the period to improve our engagement approach

As noted in ***Principle 4: Promoting Well-Functioning Markets***, in July this year we enhanced the E&S TIP Programme to accelerate its roll out, focus on two highly topical areas and improve ESG data availability. We are now highly focused on encouraging borrowers to improve their greenhouse gas (GHG) emissions intensity, in line with the Paris Agreement", and improve their sustainability disclosures by publicly disclosing emissions and diversity data.

As climate change is a systematic issue affecting every business, greenhouse gas emissions (GHG) are relevant, core and material to every company and, with increasing climate-related regulations coming into force, appropriately managing and reducing emissions is of high strategic significance to every company's current and future operations. Note that the programme remains bespoke as the sustainability performance targets are tailored to the unique characteristics of each borrower.

Since its roll out in July 2022, we are pleased to report that four borrowers have agreed to our enhanced E&S TIP proposal.

Further, as noted in ***Principle 6: Client and Beneficiary Needs*** we are exploring enhancing and standardising our engagement-data and case-study reporting through alignment with disclosure frameworks from the Investment Consultants Sustainability Working Group (ICSWG).

Principle 10: Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

At Arcmont, we are committed to working with others to promote stewardship within our investment activities. This includes other lenders, Private Equity business owners ("sponsors") in addition to wider stakeholders.

Below we outline instances where we engage with other lenders and sponsors specifically to implement sustainability linked margin ratchets. Although sustainability linked margin ratchets are quickly becoming common practice in the Private Debt market, different market participants have adopted different approaches and have different focus areas. Therefore, we have to collaborate to agree on an approach. At Arcmont, we have designed and implemented our Environmental and Social ("E&S") Target Improvement Plan Programme ("TIP"). Please refer to ***Principle 9: Engagement*** for further details.

In all circumstances we endeavour to ensure that any sustainability linked margin ratchet proposed to us or by us is designed in line with the Loan Market Association's Sustainability Linked Loan Principles ("SLLPs"), the same framework used to evaluate our own E&S TIPs as described in ***Section 9: Engagement***. We have in more than one instance refused to implement a sustainability linked margin ratchet because of a lack of alignment to the principles, specifically where targets proposed to us were not ambitious enough.

We believe that providing this feedback to market participants will preserve the integrity of the sustainability linked loans and assist with creating guidance for sustainability matters for the Private Debt industry.

Collaborating with other lenders

In some instances, we may invest in a portfolio company alongside other lenders. Here, we work with them to not only agree on an optimal debt solution, but also to agree on an engagement plan to improve a portfolio company's ESG profile.

CASE STUDY: Collaborating with other lenders to agree an E&S TIP

We recently collaborated with a co-lender and agreed an E&S TIP for a portfolio company that requires it to reduce its greenhouse gas (GHG) emissions intensity and improve its sustainability disclosures, specifically requiring the company to publicly disclosure its Scope 1, 2 & 3 greenhouse gas (GHG) emissions intensity as well as diversity metrics. In this particular instance, Arcmont was the majority lender, and we proposed the E&S TIP to both the portfolio company and the co-lender to consider. Although the co-lender had adopted a different approach for their own sustainability linked margin ratchet programme, the firm was happy to agree to our proposal as the E&S TIP captured the core principles of the SLLPs. The portfolio company was also happy to agree as our proposal was in line with their own sustainability objectives.

Collaborating with sponsors

To better align our ESG efforts with sponsors, we have recently begun undertaking sponsor assessments to evaluate the ESG efforts of all sponsors that we partner with. Understanding where our ESG strategies align and focusing our engagement efforts in these areas will improve sponsor buy in and the success of engagement efforts. As the owners of our portfolio companies, sponsors can exercise their influence and force companies to implement positive ESG changes.

We believe these assessments will enable us to work with sponsors in a more cohesive manner, which ultimately will drive our ability to achieve meaningful engagement outcomes amongst our portfolio companies. This will be a focus area moving forward, as we look to develop a robust assessment framework.

CASE STUDY: Agreeing to a sustainability linked margin ratchet designed by a sponsor

We recently collaborated with a sponsor to agree a sustainability linked margin ratchet for a portfolio company that was focused on two material areas: **(i)** supplier social assessments and **(ii)** greenhouse gas (GHG) emissions reductions. In this case, the sponsor proposed key performance indicators and sustainability performance targets to us to consider. In order to agree to the proposal, together with our external ESG consultant, we assessed it against the SLLPs. Following our review, we subsequently requested revisions to better align the plan to principles as well as grant us additional rights in the legal documentation, including allowing us to review the greenhouse gas (GHG) emissions reduction targets once the baseline assessment had been completed to ensure alignment to the Paris Agreement.

Collaborating with wider stakeholders

Arcmont is involved in several industry memberships and initiatives, which serve a variety of purposes. Our participation in these helps to inform and develop our own internal practices, contribute to the creation of Private Debt specific industry best practices and serves to bring about positive environmental, social, and economic change.

INITIATIVE	LEVEL OF INVOLVEMENT	STATUS	NATURE OF INVOLVEMENT	STARTING YEAR
UN PRI	Moderate	Signatory	Arcmont's Chief Operating Officer is a member of the Private Debt Advisory Committee.	2013
Alternative Investment Management Association (AIMA) Alternative Credit Council (ACC)	Moderate	Member	Arcmont's Chief Operating Officer is Vice Co-Chair of the AIMA ACC Manager's Committee.	2022
Task Force on Climate Related Financial Disclosures (TCFD)	Basic	Supporter	Public supporter of the initiative which is aimed at developing voluntary, consistent climate-related financial risk disclosures framework for issuers and others.	2022
2021 Global Investor Statement to Governments on the Climate Crisis	Basic	Supporter	Supporter of the initiative which is aimed at calling on governments to accelerate action to tackle the climate crisis.	2021

CASE STUDY: UN PRI PDAC

The PRI PDAC was officially formed in July 2022. The role of the Committee is to:

- Advise the PRI on its program to identify how ESG factors are considered for Private Debt
- Review and advise on relevant material to be produced and published
- Support outreach and awareness raising efforts relating to responsible investment in Private Debt
- Promote the harmonisation of industry frameworks
- Create synergies with other industry bodies

As of 31 October 2022, three meetings have been held. As a newly formed committee, introductory and administrative matters have been prioritised. Going forward the Committee will look to formalise objectives which may include:

- Promoting best practice among Private Debt investors when it comes to ESG incorporation in investment decisions and monitoring, with a focus on ESG data and climate change
- Providing guidance to the Private Debt market on how ESG integration can both reduce risk and drive positive ESG outcomes
- Building and leveraging partnerships between Private Debt and Private Equity investors to avoid duplicated effort and reduce information asymmetry
- Encouraging peer-to-peer learning and networking for private debt investors and private equity sponsors

Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

At Arcmont, we will escalate any issue that is not in line with our responsible investment objectives or those of our clients. As a lender to our portfolio companies, as opposed to an owner, the methods of escalation available to us are limited. Nonetheless, we are committed to communicating our concerns to drive positive change. In all circumstances, our escalation process begins with us raising our concerns directly with management teams, other lenders and equity owners, leveraging our relationships to enact change. We are committed to exhausting all available avenues in an attempt to remedy any situation rather than divest immediately.

Stewardship escalation methods

As a UN PRI signatory, we leverage the guidance provided by the initiative on how to act if a stewardship approach is deemed unsuccessful i.e., an escalation event occurs. The UN PRI offers a number of escalation measures; however, as a lender we are restricted on the escalation measures available to us as outlined below.

ESCALATION MEASURE	AVAILABLE TO ARCMONT AS A LENDER?
Collaboratively engaging the entity with other investors	✓
Divesting or implementing an exit strategy	✓
Filing/co-filing/submitting a shareholder resolution or proposal	✗
Publicly engaging the entity (e.g., open letter)	✗
Voting against the re-election of one or more board directors	✗
Voting against the chair of the board of directors	✗
Voting against the annual financial report	✗

Stewardship escalation events

Below we list examples of instances that may result in us engaging in escalation activities and the corresponding objectives of the escalation.

EVENT	NECESSARY ACTIONS	OBJECTIVES FOR ESCALATION
Material ESG controversy	Although we have a strong focus on pre-investment due diligence to mitigate the risks of ESG controversies arising during our holding period, they may occur. Should such an event occur, we will first engage with the issuer to understand why the event occurred, assess the impact and ensure proper remedial measures are implemented.	To encourage management to take action to mitigate the negative impacts of the controversy and implement actions to mitigate the risk of such a controversy arising again.
Post-investment ESG Exclusion Policy breach	Throughout our holding period, we continually reassess our portfolio companies against our ESG Exclusions Policy. In the event we find a violation, we will first engage with the portfolio company to understand why the breach occurred and ensure proper correction measures are implemented. If our engagement efforts do not result in satisfactory outcomes, we will not provide follow on support if requested and, as a last resort we may consider divestment.	To bring the investment back into compliance with our ESG Exclusions Policy.
Unsuccessful engagement	We deem an unsuccessful engagement to be one where a company has agreed to participate in our E&S Target Improvement Plan Programme but consistently fails to meet a sustainability performance target or has not taken proactive steps to meet a sustainability performance target. In such events, we will escalate our concerns to the company and sponsor and advocate for changes. Should the sustainability performance targets be deemed to be too ambitious, we will revisit the plan, pinpoint causes of the inadequate outcomes, and implement improved engagement efforts.	To ultimately encourage our portfolio companies to improve their E&S performance.

Collaboratively engaging the entity with other investors

As described in *Principle 10: Collaboration*, we work with other investors across our investments. Should an escalation event occur, we will collaborate with these parties to ensure appropriate action is taken. As owners of our portfolio companies, sponsors can exercise their influence to force the companies to implement the appropriate remedial action.

Divesting or implementing an exit strategy

Should a portfolio company not take appropriate action to remedy an ESG escalation event, we may mitigate our risk exposure by considering selling our position to a third party if the value is compelling, however, this situation has not yet arisen for Arcmont.

Voting

As further explained in ***Principle 12: Exercising Rights and Responsibilities***, Arcmont may be able to vote in limited instances where investments take on an equity element and we are granted shareholder voting rights, or in very limited instances where Arcmont has enforced against the debt to take ownership of the company. However, for the overwhelming majority of Arcmont's current equity positions, we only hold a minority stake in voting shares and, given our votes are not required to pass shareholders' resolutions and the majority of our portfolio companies are private companies, we are not typically consulted prior to a vote on matters being put to shareholder vote, including ESG matters. However, in the event that we do have shareholder voting rights we will pursue the voting measure prescribed by the UN PRI, where possible, to escalate our concerns and advocate for positive change. To date, this opportunity has not yet arisen for Arcmont.

Outcome

During the 12-month period ending 31 October 2022, none of the aforementioned escalation events occurred. We therefore are unable to comment on the outcomes of escalations.

Future actions

We recognise that there is an opportunity to formalise and strengthen our internal escalation procedures. We are therefore exploring implementing an Escalation Policy to document and standardise our approach, serve as a formal guide to users as well as highlight the limitations we face as a lender.

Exercising Rights and Responsibilities

Principle 12: Exercising Rights and Responsibilities

Signatories actively exercise their rights and responsibilities.

Arcmont is a Private Debt asset manager and is therefore a lender rather than an owner for the vast majority of investments. Further, Arcmont does not invest in listed equities and therefore the Code reporting requirements for this asset class have not been addressed in this section.

Resources

The investment team receives regular specific negotiation and other related training. For example, during the 12-month period ending 31 October 2022, senior investment team members attended a multi-day course focused on delivering the best outcomes in deal-related negotiations. We also have an experienced dedicated internal legal team who support the investment team's efforts. The team is responsible for providing input on and reviewing all investment documentation, whilst working alongside our external legal advisors to support the investment team in negotiations.

Rights and responsibilities

In making any given investment, we actively negotiate terms, conditions, rights and responsibilities to not only ensure the investments are attractive for our clients, but also to ensure that Arcmont is able to exercise appropriate levels of rights and responsibilities, if necessary.

While each agreement is bespoke, in all cases we aim to ensure downside protection. Accordingly, the vast majority of our agreements include incurrence covenants and/or maintenance covenants together with non-financial covenants. These covenants allow us to take enforcement action should a covenant breach not be remedied during the relevant grace period granted. Currently, we do not have sustainability linked covenants in our legal documentation. We do, however, have sustainability-related rights and responsibilities for those investments where we have implemented a sustainability linked margin ratchet.

We would like to highlight that where we have become an owner of a business following a restructuring relating to financial performance deterioration, we will exercise our rights as an owner to encourage better ESG performance. Please refer to the tailored ESG engagement plan following a restructuring case study in ***Principle 9: Engagement*** as an example.

Sustainability linked margin ratchets

Many primary loan agreements now include sustainability linked margin ratchets, granting the relevant parties ESG-related rights and responsibilities. At Arcmont, we include standard sustainability linked margin rachet language in our primary loan agreements, where possible, to reflect our Environmental and Social ("E&S") Target Improvement Plan ("TIP") Programme as detailed in ***Principle 9: Engagement***.

Note that due to the bespoke nature of our programme, this language typically includes an “agree to agree” condition, where a borrower agrees to participate but the key performance indicators and sustainability performance targets are agreed post- closing. This ensures that the E&S TIP does not delay the closing of the transaction and also affords us with time to ensure that our sustainability linked margin ratchets capture the fundamental characteristics of sustainability linked products as prescribed by the Loan Market Association’s Sustainability Linked Loan Principles (SLLPs).

Although margin ratchet discounts are currently the most common type of sustainability linked margin ratchets (i.e., if a portfolio company meets a sustainability performance target, they are rewarded with an interest rate decrease), margin rachet increases are slowly becoming more common (i.e., portfolio companies are penalised if they fail to meet a sustainability performance target). Margin ratchet increases ultimately drive better engagement outcomes as portfolio companies are better incentivised to meet the sustainability performance targets set. In these cases, although we cannot take enforcement action as we can where these is a covenant breach, the company is penalised should it not improve E&S performance as planned. For the period ending 31 October 2022, we have agreed three sustainability linked margin ratchets that include margin ratchet increases in addition to decreases.

The details of all of our sustainability linked margin ratchets are formally documented in a legal agreement. In all cases, we ensure we have the right to receive sustainable performance data and the right to challenge the data.

Voting

Arcmont is primarily a Private Debt lender, however, we may be able to vote in instances where we have taken equity positions as part of the overall debt package and are granted shareholder voting rights or in very limited instances where Arcmont has enforced against the debt to take ownership of the company.

For the overwhelming majority of Arcmont’s current equity positions, we only hold a minority stake in voting shares (0% - 20%) and there is one majority owner (80%+). Given our votes are not required to pass shareholders’ resolutions, we are not typically consulted on matters being put to shareholder vote. From a commercial perspective, we instead rely on our negotiation of market-standard minority shareholder protections. Despite the limited opportunities to vote, we are in a process of developing a formal Voting Policy to document and standardised our approach, serve as a formal guide to users as well as highlight the limitations we face as a lender, as mentioned in ***Principle 5: Review and Assurance***.

Apart from restructurings where we have “taken the keys” to a portfolio company, we currently only hold a more significant stake (>20%) in voting shares for one investment across all of the Arcmont Funds. For this particular investment, we hold c. 45% of the voting shares in the company. Where our consent as shareholder is sought, there is a formal internal approval process that must be followed. In all instances, the deal team’s recommendation is presented to the Arcmont Funds’ Board for approval before being given. For any investment decisions, the Investment Committee and, where appropriate, the Deal Approval Committee, must approve the deal team’s recommendation before it goes to the Fund's Board for final approval.

In the instances where we have “taken the keys” to a portfolio company, we are able to exercise influence. Here, we will develop a tailored ESG engagement plan. Please refer to P***rinciple 9: Engagement*** for further details.

Contact Us

To ensure we continue to meet our key stakeholder needs and interests, we welcome feedback on the contents on this report. Please contact ESG@Arcmont.com

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