



# Enviromental, Social and Governance (ESG) Exclusions Policy

Arcmont Asset Management  
Limited

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## Introduction

Screening prospective companies against an ESG exclusion policy is the first stage in Arcmont's responsible investment process. This policy applies to all Arcmont co-mingled funds and associated vehicles (together the "**Funds**") except for Capital Solutions funds and associated vehicles<sup>1</sup>. Note that additional exclusions apply to Arcmont's Impact Lending strategy and associated vehicles. This policy is reviewed on an annual basis by the ESG Committee.

Two separate sets of exclusion criteria apply to the Funds depending on the nature of the transaction. Direct Lending transactions<sup>2</sup> are subject to the exclusions set out in Part A. Net Asset Value ("**NAV**") financing transactions<sup>3</sup> are subject to the exclusions set out in Part B. The exclusions are applied based on Arcmont's actual knowledge based on ordinary due diligence.

## Contact Details

For more information, please contact [ESG@Arcmont.com](mailto:ESG@Arcmont.com).

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<sup>1</sup> This policy applies to Capital Solutions Fund I.

<sup>2</sup> Direct Lending transactions involve the provision of lending solutions through the origination and underwriting of senior secured and subordinated loans, including equity components associated with such loans, to European medium-sized businesses.

<sup>3</sup> NAV financing transactions involve the provision of financing through credit and select equity-like investments to private funds, including funds managed by European and North American sponsors primarily focussed on the private equity mid-market, management companies or limited partners of sponsor funds (whether structured as debt, preferred equity or otherwise), collateralised by the cash flows of a diversified, high-quality pool of underlying portfolio companies.

## A. Direct Lending Transactions

Every prospective Direct Lending transaction is screened against the below Excluded Activities List prior to the initial investment decision and any follow-on investment. For further information on each exclusion, please see the background information on the following pages.

Excluded Activities	Exclusion Type
Violation of the UN Global Compact Principles	Absolute Exclusion
Adult Entertainment	Absolute Exclusion
Controversial Weapons	Absolute Exclusion
Conventional Weapons	Absolute Exclusion
Fur Products	Absolute Exclusion
Genetically Modified Organisms (GMOs)	Absolute Exclusion
Tobacco	Absolute Exclusion
Thermal Coal	Revenue Threshold - Greater than 5%
Oil Sands/Tar Sands	Revenue Threshold - Greater than 5%
Nuclear Power Generation	Revenue Threshold - Greater than 10%
Gambling	Revenue Threshold - Greater than 25%

## Background

### 1. UN Global Compact

The Funds will not knowingly invest in companies that engage in serious or systematic human or labour rights infringements, environmental harm, corruption, or any other action that is considered a violation of the principles of the UN Global Compact<sup>4</sup>. When assessing a company against this exclusion, Arcmont considers the severity, irremediability and frequency of the violation as well as the company's degree of complicity. The measures a company has implemented to prevent repeats of the violation are also central to the assessment. If there is evidence of issues but the investee has, or will put in place, robust measures, Arcmont may determine that an investment can still proceed.

Exclusions	Notes
<b>Human Rights</b>	Companies engaged in serious or systematic violations of the UN Universal Declaration of Human Rights (UDHR) <sup>5</sup> are excluded under this policy.
<b>Labour Rights</b>	Companies engaged in serious or systematic violations of the labour rights conventions of the International Labour Organisation (ILO) <sup>6</sup> are excluded under this policy.
<b>Environmental Harm</b>	Companies engaged in serious or systematic environmental harm are excluded under this policy.
<b>Corruption</b>	Companies engaged in serious or systematic corruption are excluded under this policy.

### 2. Adult Entertainment

The Funds will not knowingly invest in companies generating any revenue directly from adult entertainment. Companies are not covered by this exclusion if the sale of adult entertainment is incidental to its wider business.

### 3. Controversial Weapons

The Funds will not knowingly invest in companies that produce, use, store, trade, or ensure the maintenance<sup>7</sup>, transport and finance of controversial weapons or material physical components specifically designed for controversial weapons (each such activity for the purposes of this paragraph being an "excluded activity"). This also includes companies that own 25% or more of a company engaged in an excluded activity, Arcmont abstains from these investments. Please refer to Appendix 1 for further details on the types of weapons excluded under this definition.

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<sup>4</sup> [UN Global Compact \(UNGC\) Principles](#)

<sup>5</sup> [The UN Universal Declaration of Human Rights \(UDHR\)](#)

<sup>6</sup> [Conventions and recommendations of the International Labour Organisation \(ILO\)](#)

<sup>7</sup> Maintenance means the actual, direct physical maintenance of the weapons or components themselves, not "support" or indirect maintenance.

#### 4. Conventional Weapons

The Funds will not knowingly invest in companies that produce, use, store or trade conventional weapons or material physical components specifically designed for conventional weapons (each such activity for the purposes of this paragraph being an “excluded activity”). This also includes companies that own 25% or more of a company engaged in an excluded activity. Please refer to Appendix 2 for further details on the types of weapons excluded under this definition.

#### 5. Fur Products

The Funds will not knowingly invest in companies generating any revenue directly from the production of products that are primarily comprised of fur pelt, fur or fur trim. The Funds also excludes companies that hunt, raise or trap animals for their fur.

#### 6. Genetically Modified Organisms (GMOs)

The Funds will not knowingly invest in companies generating any revenue directly from the modification of plants or animals using genetic engineering, unless such products and services have a health care application.

#### 7. Tobacco

The Funds will not knowingly invest in companies generating any revenue directly from the production of tobacco products or material physical components exclusively designed for such products (such as filters). This includes companies involved in cultivating and processing tobacco. Companies are not covered by this exclusion if the sale of tobacco is incidental to its wider business (e.g., convenience stores).

#### 8. Thermal Coal

The Funds will not knowingly invest in companies generating more than 5% of revenue directly from the mining or distribution of thermal coal or from coal-based power generation. This exclusion also extends to companies that generate more than 5% of revenue from the financing of coal-based power generation. For the avoidance of doubt, this exclusion does not apply to companies whose products or services may be used in relation to thermal coal mining, distribution or coal-based power generation.

#### 9. Oil Sands/Tar Sands

The Funds will not knowingly invest in companies generating more than 5% of revenue directly from the production, upgrading, refinement, or distribution of raw crude oil sourced from oil

sands/tar sands<sup>8</sup>. This exclusion also extends to companies that generate more than 5% of revenue from the financing of oil sands/tar sands projects. For the avoidance of doubt, this exclusion (i) does not apply to companies whose products or services may be used in relation to the production, upgrading, refinement or distribution of crude oil sourced from oil sands/tar sands and (ii) does not include refined crude oil i.e., commercially available oil.

## 10. Nuclear Power Generation

The Funds will not knowingly invest in companies generating more than 10% of revenue directly from nuclear power generation.

## 11. Gambling

The Funds will not knowingly invest in companies that generate more than 25% of revenues directly from the operation of gambling establishments (e.g. casinos, racetracks, or online gambling websites). This exclusion covers companies involved in the manufacture of specialised equipment used exclusively for gambling, including slot machines, roulette wheels, and lottery terminals.

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<sup>8</sup> Oil sands, also known as tar sands, are a type of unconventional petroleum deposit. Oil sands/tar sands are found in large deposits in places like Alberta, Canada, and Venezuela.

## B. NAV Financing Responsible Investment Approach

Note that the targets of the negative screening vary depending on the NAV financing transaction type as outlined below.

NAV Financing Transaction Type	Screening Target(s)
Fund Financing	GP and underlying portfolio companies
GP Financing	GP and, if relevant, underlying portfolio companies
LP Financing	LPs in the relevant fund

### (a) Sensitivities List

Each Screening Target will be screened against the below Sensitivities List prior to the initial investment decision and any follow-on investment. Arcmont seeks to ensure that no prospective investment has a material exposure to “sensitive” sectors.

In terms of the process:

1. The deal team will assign a Global Industry Classification Standard (“GICS”) sub-industry classification to the relevant Screening Target based on a majority revenue test.
2. Screening Targets that are assigned any of the GICS sub-industry classifications listed below will be deemed “sensitive”.
3. If more than 30% of the total NAV prior to the initial investment decision and any follow-on investment is deemed “sensitive”, Arcmont will not pursue the investment.

GICS Sub-Industry Code	GICS Sub-Industry Code
10101010	Oil & Gas Drilling
10101020	Oil & Gas Equipment & Services
10102010	Integrated Oil & Gas
10102020	Oil & Gas Exploration & Production
10102030	Oil & Gas Refining & Marketing
10102040	Oil & Gas Storage & Transportation
10102050	Coal & Consumable Fuels
20101010	Aerospace & Defense
25301010	Casinos & Gaming
30203010	Tobacco

### (b) RepRisk/Controversy Screening

Each Screening Target will also be screened for risk incidents and controversies. Arcmont leverages RepRisk to complement desk-based research. Part of this controversy screening is to identify any serious violations of human or labour rights, environmental harm, corruption or other actions that breach the principles of the UNGC. Arcmont will seek to avoid lending to counterparties or against underlying assets engaged in such actions. Note that Arcmont considers the severity, irremediability and frequency of the incident as well as the company's

degree of complicity. The measures a company has implemented to prevent repeats of the violation are also central to the assessment. If there is evidence of issues but the investee has, or will put in place, robust measures, Arcmont may determine that an investment can still proceed.



## Appendix 1: Controversial Weapons

Exclusions	Notes
<b>Exploding or Expanding Ammunition</b>	“Exploding or Expanding Ammunition” means bullets which expand or flatten easily in the human body prohibited by the Declaration Concerning Expanding Bullets done at The Hague, 29 July 1899, as amended and revised, and includes any projectiles of a weight below 400 grammes which are either explosive or charged with fulminating or inflammable substances prohibited by the Declaration Renouncing the Use, in Time of War, of Explosive Projectiles Under 400 Grammes Weight done at Saint Petersburg on 29 November (11 December) 1868, as amended and revised.
<b>Landmines</b>	“Landmines” means “mines” and “remotely-delivered mines” prohibited by the Protocol on Prohibitions or Restrictions on the Use of Mines, Booby-Traps and Other Devices as amended on 3 May 1996 annexed to the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to be Excessively Injurious or to Have Indiscriminate Effects as amended on 21 December 2001, as amended and revised, and “anti-personnel mines” within the meaning of the Convention on the Prohibition of the Use of Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction, as amended and revised. Landmines are victim-activated explosive weapons that are placed under, on or near the ground. They are considered controversial as they cannot distinguish between civilians and military personnel.
<b>Chemical Weapons</b>	Chemical weapons are toxic chemicals and their precursors that can cause death, temporary incapacitation, or permanent harm through their chemical action. Biological weapons are biological agents or toxins designed for hostile purposes or armed conflict. The development, production, stockpiling, acquisition, retention and transfer of such weapons, including their delivery systems, are banned under multiple conventions <sup>9</sup> .
<b>Biological Weapons</b>	“Biological weapons” means microbial or other biological agents, or toxins whatever their origin or method of production, of types and in quantities that have no justification for prophylactic, protective or other peaceful purposes and weapons, equipment or means of delivery designed to use such agents or toxins for hostile purposes or in armed conflict prohibited by the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction, as amended and revised, and includes bacteriological methods of warfare prohibited by the Protocol for the Prohibition of the Use in War of Asphyxiating, Poisonous or Other Gases, and of Bacteriological Methods of

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<sup>9</sup> Banned under the 1925 Geneva Protocol, the 1972 Biological Weapons and Toxin Convention (“BTWC”), and the 1993 Chemical Weapons Convention (“CWC”).

<b>Exclusions</b>	<b>Notes</b>
	Warfare done at Geneva on 17 June 1925, as amended and revised. Biological weapons are biological agents or toxins designed for hostile purposes or armed conflict. The development, production, stockpiling, acquisition, retention and transfer of such weapons, including their delivery systems, are banned under multiple conventions.
<b>Cluster Munitions</b>	Cluster munitions has the meaning given in the Convention on Cluster Munitions, as amended and revised. Cluster munitions are single ‘parent’ containers containing multiple explosive sub-munitions. They are controversial as when they are released, they impact a wide area and are unable to specifically target combatants. The manufacture, use, and stockpiling of these weapons and their components is banned under international convention. The financing of cluster munitions is excluded under this policy irrespective of the country level restrictions.
<b>Non-Detectable Fragments</b>	“Non-Detectable Fragments” means any weapon the primary effect of which is to injure by fragments which in the human body escape detection by X-rays prohibited by the Protocol on Non-Detectable Fragments annexed to the Convention on Certain Conventional Weapons, as amended and revised.
<b>Incendiary Weapons</b>	“Incendiary weapons” means any weapon or munition which is primarily designed to set fire to objects or to cause burn injury to persons through the action of flame, heat or combination thereof, produced by chemical reaction of a substance delivered on the target prohibited by the Protocol on Prohibitions or Restrictions on the Use of Incendiary Weapons annexed to the Convention on Certain Conventional Weapons, as amended and revised.
<b>Blinding Lasers</b>	“Blinding lasers” means laser weapons specifically designed, as their sole combat function or as one of their combat functions, to cause permanent blindness to unenhanced vision, is to the naked eye or to the eye with corrective eyesight devices prohibited by the Protocol on Blinding Laser Weapons annexed to the Convention on Certain Conventional Weapons, as amended and revised.
<b>Depleted Uranium</b>	Depleted Uranium (“DU”) is a by-product from enriching natural uranium to use in nuclear power reactors and is deployed as tank armour or in bullets due to its high density. The use of DU is controversial as it is a poisonous heavy metal (similar to lead or mercury), with a radioactive component. There are currently no international conventions banning depleted uranium weapons.
<b>White Phosphorus</b>	White phosphorus is an incendiary and toxic chemical substance used as a filler in several different munitions that can be employed for a variety of military purposes. Because it has legal uses, white phosphorus is not banned as a chemical weapon under international convention, however, it is a toxic chemical and can have severe negative health and environmental impacts.

Exclusions	Notes
<b>Nuclear Weapons</b>	<p>“Nuclear weapons” means nuclear weapons and other nuclear explosive devices prohibited by the Treaty on the Prohibition of Nuclear Weapons, as amended and revised, including weapons and devices subject to the Treaty on the Non-Proliferation of Nuclear Weapons, as amended and revised. A nuclear weapon is an explosive device that derives its destructive force from nuclear reactions, either fission or from a combination of fission and fusion reactions. Nuclear weapons are indiscriminate and can have long-term damaging effects on the natural environment and the lives of future generations. International treaties ban their development, testing, production, acquisition, possession, stockpiling, stationing, transfer, use and threat of use.</p>

## Appendix 2: Conventional Weapons

Exclusions	Notes
<b>Battle Tanks</b>	A self-propelled armoured fighting vehicle, capable of heavy firepower, primarily of a high muzzle velocity direct fire main gun necessary to engage armoured and other targets, with high cross-country mobility, with a high level of self-protection, and which is not designed and equipped primarily to transport combat troops.
<b>Armoured combat vehicles</b>	A self-propelled vehicle with armoured protection and cross-country capability. Armoured combat vehicles include armoured personnel carriers, armoured infantry fighting vehicles and heavy armament combat vehicles.
<b>Artillery</b>	Large calibre systems capable of engaging ground targets by delivering primarily indirect fire.
<b>Combat aircraft</b>	A fixed-wing or variable-geometry wing aircraft armed and equipped to engage targets by employing guided missiles, unguided rockets, bombs, guns, cannons, or other weapons of destruction, as well as any model or version of such an aircraft which performs other military functions such as reconnaissance or electronic warfare. The term “combat aircraft” does not include a primary trainer aircraft.
<b>Combat helicopters</b>	A rotary wing aircraft armed and equipped to engage targets or equipped to perform other military functions. The term “combat helicopter” comprises attack helicopters and combat support helicopters. The term “combat helicopter” does not include unarmed transport helicopters.
<b>Warships</b>	Vessels or submarines armed and equipped for military use with a standard displacement of 500 metric tons or above, and those with a standard displacement of less than 500 metric tons, equipped for launching missiles with a range of at least 25 kilometres or torpedoes with a similar range.
<b>Missiles and missile launchers</b>	Guided or unguided rockets, ballistic or cruise missiles capable of delivering a warhead or weapon of destruction to a range of at least 25 kilometres and means designed or modified specifically for launching such missiles or rockets. This includes remotely piloted vehicles with the characteristics of missiles as defined above as well as Man-Portable Air-Defense Systems (MANPADS).
<b>Small arms and light weapons</b>	Any man-portable lethal weapon that expels or launches is designed to expel or launch or may be readily converted to expel or launch a shot, bullet or projectile by the action of an explosive, excluding antique small arms and light weapons or their replicas.

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