Arcmont
ASSET MANAGEMENT

2021 SUSTAINABILITY REPORT

JULY 2022

Contents

FOREWORD

Letter from Anthony Fobel

We recognise that successfully managing the three core pillars of sustainability – people, planet, and profit – are essential to business longevity. As such, these considerations are interwoven in our business and investment strategy.

2021 was a pivotal year for Arcmont. Despite a backdrop of continued Covid-19 disruption, inflationary pressures from increasing energy prices, supply chain disruptions and labour shortages in certain industries, we continued to make significant progress on many fronts.

Not only did our deployment pace reach record levels, investing approximately €6 billion in over 40 transactions, we also made important sustainability advancements including implementing our Environmental and Social ("E&S") Target Improvement Plan ("TIP") Programme and becoming carbon neutral across Scope 1, 2 and select 3[1] emissions.

At Arcmont, sustainability means ensuring our corporate operations and investment practices are performed in a responsible manner and are supportive of sustainability outcomes.

We established our sustainability focus nearly a decade ago when we became signatory to the UN-supported Principles for Responsible Investment ("PRI"). At the start of our sustainability journey, we were focused on enhancing and developing our investment practices to ensure we continued to deliver absolute, risk-adjusted returns for our investors.

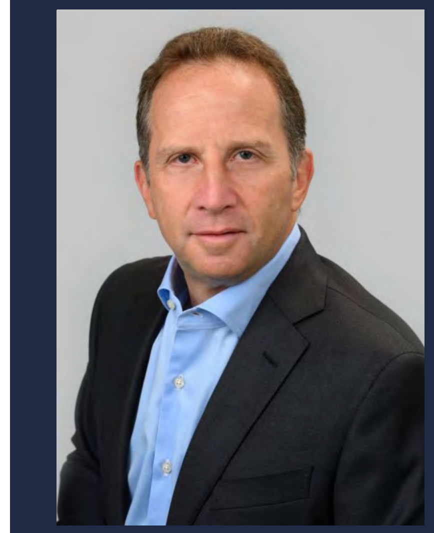
After successfully building a rigorous responsible investment process, one that qualifies our latest funds as Article 8 under the Sustainable Finance Disclosure Regulation ("SFDR"), we increased our focus on our corporate operations.

Accordingly, at the start of 2022 we performed a materiality assessment to assess our position on the ESG issues that matter most to our business and stakeholders, and to identify areas of improvement to address.

We were pleased with the results of the assessment which show we are well progressed on our corporate sustainability journey; however, we recognise there is continued scope for improvement. We have already started to address the weaknesses identified and are committed to enhancing both our operations and investment practices to better serve our stakeholders, society, and the environment.

The aim of this report is to be transparent and hold ourselves publicly accountable to improve our sustainability efforts across all areas of our business. Readers are invited to view this report as an introduction to our broader sustainability-related efforts.

Anthony Fobel



"We are committed to operating and investing responsibly, adopting sustainable business practices and making decisions for the long term."

ANTHONY FOBEL, CHIEF EXECUTIVE OFFICER

1. Excludes financed emissions
2. Investable capital includes separately managed accounts and estimated leverage
3. Capital Solutions was reclassified as Article 8 in 2022

Source: Arcmont data as of July 2022

2021 Highlights

Firmwide Strategic Achievements

€6 billion committed in over 40 transactions

€5 billion of investable capital[2] raised for Senior Loan Fund II at final close in 2021, above our target of €3 to €4 billion

€3.6 billion of additional capital raised during the year

Corporate Responsibility Achievements

Achieved **carbon neutrality** across our Scope 1, 2 and select 3 emissions[1]

For more information see **page 11**

We performed a **Task Force on Climate-Related Financial Disclosures** ("TCFD") gap analysis to set the foundations for TCFD-aligned reporting

For more information see **page 12**

We joined the **Investing Potential Programme** with the aim of increasing diversity in our industry

For more information see **page 15**

Responsible Investment Achievements

We classified three latest co-mingled funds as **Article 8 under the SFDR**[3]

For more information see **page 19**

We released a **whitepaper** on ESG integration in Private Debt, giving tangible examples of our advanced practices

For more information see **page 31**

We launched our **E&S TIP Programme**, financially incentivising borrowers to improve their E&S performance

For more information see **page 28**

About Arcmont

ABOUT ARCMONT

Our business

Arcmont is a leading Private Debt asset management firm, providing flexible capital solutions to a wide range of businesses across Europe.

Founded in 2011, originally as the BlueBay Asset Management ("BlueBay") Private Debt business, Arcmont is now an independent firm having raised more than €22 billion since inception. Arcmont is a pioneer in the market for Private Debt in Europe and remains a key driver of the growth of the asset class.

Arcmont is a trusted and reliable partner with access to proprietary deal flow and exclusive relationships. At Arcmont, our approach is that of a true investor in businesses, rather than a lender, and we strive to build relationships to ensure we are continuously backing our partners as their needs evolve.

Our investment strategies span the spectrum of Private Debt, enabling us to offer innovative financing arrangements for all types of businesses, in different growth stages and economic cycles.

Our three investment strategies[4]

Direct Lending

This strategy invests in a defensive, diversified portfolio consisting mainly of senior loans, as well as unitranche, second lien and subordinated loans. Although most loans are senior secured, we are also able to hold equity or warrant positions alongside those loans, providing upside potential in select situations.

€12.4 bn
Strategy capital

4
Fund vintages

Senior Lending

This strategy aims to provide senior loans where they are significantly protected by the value of the business. We target companies that exhibit steady, stable and cash generative business models. The aim is to generate low risk, attractive returns, with a focus on capital preservation through conservative structuring.

€8.4 bn
Strategy capital

2
Fund vintages

Capital Solutions

This strategy targets investment opportunities that result from market dislocations and investments of higher complexity, where we believe attractive risk-adjusted returns can be achieved. Arcmont are able to provide both liquidity and rescue financing in addition to restructuring expertise to help businesses navigate difficult environments.

€750 m
Target strategy capital

1
Fund vintage

Founded in 2011
a pioneer in EU Private Debt

+90 Employees
operating across **7** offices[5]

€22 bn
entrusted to Arcmont by **+350** investors

€20 bn
committed since inception in **+240** transactions

€17 bn
invested in **+145** portfolio companies across **16** geographies

+70
Private Equity sponsors and owners

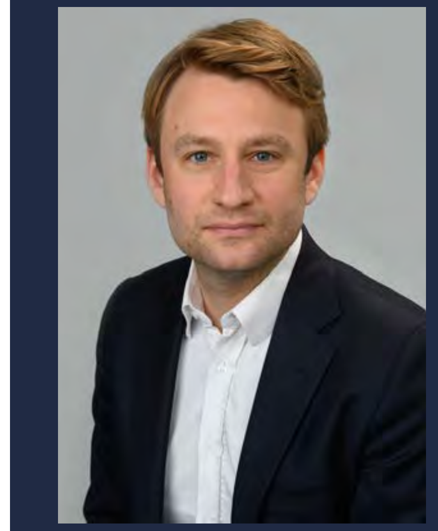
4. Strategy capital includes separately managed accounts and estimated leverage
5. Six offices in Europe, one in US; excludes the Luxembourg funds office
Source: Arcmont Data as of July 2022

ABOUT ARCMONT

Our investment philosophy and values

We make business and investment decisions for the long term, maximising the power of capital to achieve positive outcomes.

In all cases, we operate with the highest levels of integrity, reliability, and transparency. We are passionate about supporting businesses and strive to be Europe's leading Private Debt investment platform.



"We are a trusted, high-quality partner in the Private Debt market with long-standing relationships with sponsors and other market participants. This affords us with transaction flow where opportunities are referred to Arcmont."

MATTIS POETTER, PARTNER AND CO-CHIEF INVESTMENT OFFICER

Our investment values

Integrity

We operate to the highest standards of personal and professional ethics, compliance, transparency and honesty.

Security

We aim to deliver attractive, absolute and risk-adjusted returns to investors.

Flexibility

We offer a wide range of capital solutions using various investment products.

Innovation

We are creative about providing bespoke financing solutions tailored to the unique needs of businesses.

Partnership

We work in partnership with our investors, portfolio companies and their owners to optimise each party's objective.

Teamwork

We work to deliver best-in-class outcomes, creating an environment where our employees can grow, develop and innovate.

ABOUT ARCMONT

Our internal materiality assessment

Any business that wants to succeed in the long term must integrate sustainability into its business practices and well-manage the key ESG issues it faces.

To this end, to ensure our efforts and resources are focused in the right areas, we conducted a formal materiality assessment to identify, understand and prioritise the issues that are deemed to be critical to our business performance and key stakeholder groups. A total of 12 priority areas were identified and mapped against three key pillars. This report aims to provide readers with details on each area, showcasing what we are currently doing as well as our near-term commitments.

This report is reviewed by the Arcmont Board and ESG Committee to provide input on, review and approve corporate sustainability disclosures and objectives.

We work to continuously improve our reporting and disclosures, and are committed to updating our materiality assessment annually to ensure that the identified areas continue to be appropriate and relevant. By following the four-step process shown on the right, we will implement a consistent, iterative approach to assessing the ever-changing needs, risks, and opportunities of our business and our stakeholders.

Our pillars

Responsible Operations

- Our people
- Climate change
- Data safeguarding and systems
- Our investors
- Our communities

Responsible Governance

- Ownership, control and governance
- Business ethics and integrity
- Management of the legal & regulatory environment

Responsible Investment

- Strategy
- Governance
- Process
- Advocacy

Our internal materiality assessment process

Responsible Operations

RESPONSIBLE OPERATIONS

Our people

Our people are at the heart of our business, differentiating and driving our industry-leading practices. Our success relies on our ability to attract, retain and develop intellectually outstanding and diverse individuals.

Talent Attraction and Recruitment

We are continually building and strengthening the Arcmont team, focusing on attracting diverse and diversely talented individuals. Today, our team consists of over 90 full-time employees located across 7 locations[5]. We continue to add resources across all areas to support the growth of our business and have significantly increased in size from the initial 43 employees at the time we became independent in 2019.

Every new employee is welcomed with a comprehensive induction programme including objective setting, cross-team introduction meetings, compliance and systems training, and is paired with a mentor. We aim to make every employee feel like part of the team from day one.

Career Development

We aspire to provide our employees with professional development opportunities to help them realise their full potential. We are highly committed to continuously advancing capabilities through a variety of learning and development activities based around targeted, individual needs, as well as fostering a culture of on-the-job learning and regular feedback. We also aim to ensure that our employees receive sufficient resources and mentorship to develop their careers as we conduct annual and bi-annual employee performance reviews, which includes collaborative target setting.

90+
full time employees

7
locations[6]

6. Six offices in Europe, one in US; excludes the Luxembourg funds office

Employee Engagement

We strive to make Arcmont a great place to work and are committed to encouraging communication and engagement among our employees. To this end, we hold monthly firm-wide update calls and social events, in addition to an annual offsite event. We also have an employee suggestion box to encourage a culture of open and multi-directional feedback and to allow every employee to voice their opinion.

Employee Well-Being

We firmly believe that to grow our organisation sustainably, we have to support employees with compassion and care. To this end, we have significantly overhauled our well-being offering to provide an attractive employee package comprising various benefits and assistance programmes, ensuring our people can maintain and enhance their physical and metal health. This includes company-sponsored health and wellness programmes such as private medical insurance, a private doctor scheme, gym and health club memberships and a cycle-to-work scheme.

Health and Safety Management

To ensure the health and safety of our staff in the office, we conduct regular Health & Safety Risk Assessments to identify any risks that can affect our employees including fire risk and Legionella risk. Further, we employ risk mitigation measures to minimise any negative effects in case the identified risks do occur. This includes having First Aiders, Mental Health First Aiders and Fire Marshals, as well as regularly checking First Aid supplies, fire doors, extinguishing equipment, and alarms. We also monitor any forms of accidents at the workplace through our HR portal.

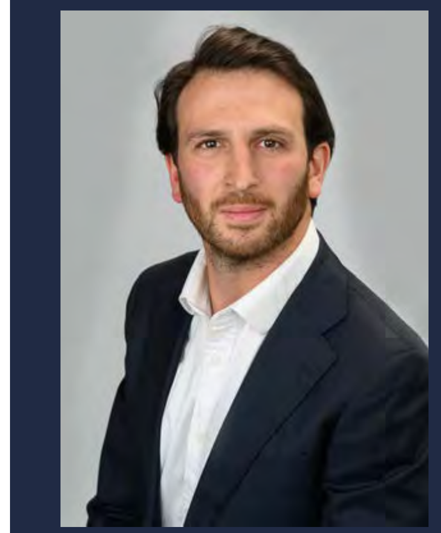
SPOTLIGHT

Offsite Events

In 2021 we held a company offsite day. The day comprised of a series of discussions led by senior members of the different teams within Arcmont, outlining progress over the previous year, strategic direction going forward, and an affirmation of the overall vision of the firm for the future. Social and team building events were held throughout the day, culminating in a gala dinner and our annual awards ceremony. Similarly, in 2022 we held a three-day company offsite event comprising conferences and strategic breakout sessions as well as cross-team activities and challenges.

Covid-19

The Coronavirus (Covid-19) pandemic caused unprecedented disruption to the normal trading of many companies and global markets. During this time, our priority was the well-being and safety of our employees and those with whom we partner. Accordingly, in line with government guidelines, the offices were closed for parts of 2020 and 2021. During this period, our Business Continuity Plan proved to be highly successful and our business continued to operate as normal. Our new London office opened in August 2020, with employees returning to the office from the beginning of September. As legal restrictions have eased across Europe, our offices remain open and operating under a comprehensive plan to ensure a safe working environment for our employees.



"At Arcmont, we operate with a flat structure, allowing junior members of staff to learn directly from senior members, accelerating their career development. Our aim is to provide a broad range of learning and development opportunities to progress careers and ultimately create industry experts."

MICHAEL MASSARANO, ASSOCIATE PARTNER & CO-HEAD OF HUMAN CAPITAL

2022 INITIATIVES

New Learning & Development Portal

We have introduced a new, centralised learning and development platform which provides our employees with access to non-mandatory technical and soft-skill training, tailored to their individual needs, as well as all relevant compliance and regulatory training. The portal also links in bi-annual formal reviews and objective setting.

Lunch & Learn

At the start of 2022, we launched the Arcmont Lunch & Learn series. Every month, an employee presents a specific topic to educate the wider team. Topics can include role education, technical discussions (e.g., fund structures and fund tax treatments) as well as internal systems education. The sessions provide the team with an opportunity to better understand other areas of the business and to interact with others in the firm. They also provide an open forum for discussion of how we can better collaborate across teams to address the current challenges facing our business.

RESPONSIBLE OPERATIONS

Our people continued

Diversity, Equity & Inclusion

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.

Arcmont is an equal opportunities employer, who respects the unique needs of all employees. We are committed to promoting diversity, preventing discrimination, and providing a supportive, equitable and inclusive working environment for everyone. This commitment is documented in our internal Diversity and Inclusion Policy. To this end, we now carry out annual Respect in the Workplace and other related trainings to foster an inclusive and respectful work environment.

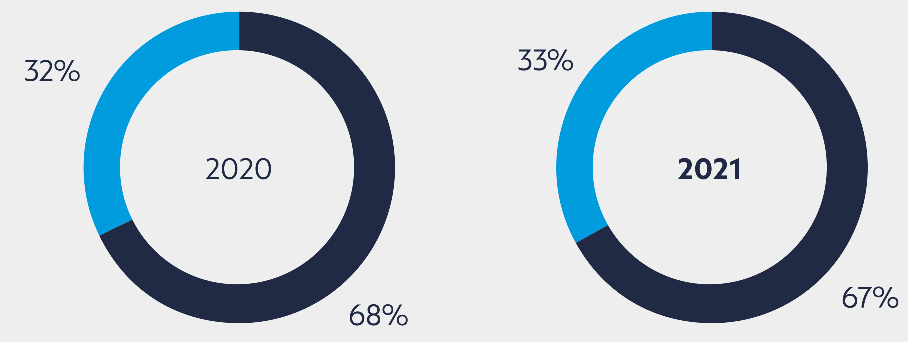
To date, our efforts in the workplace have been focused on improving female representation levels across the firm. Prior to the spin out, our CFO and Head of Legal ran the women's network at BlueBay. This is something we intend on mirroring at Arcmont as we grow in size. In addition, in 2020, we organised a recruitment event specifically targeted at female graduates, giving attendees insight into what it is like to work in Private Debt. Furthermore, several employees regularly attend and participate in the Women in Fund Finance events.

The charts on this page provide a snapshot of the female representation levels as at 31 December 2020 and 2021. We are pleased that we have improved gender diversity across three key groups over the year, however, recognise there is much room for improvement. We are committed to improving these statistics further in addition to our race and ethnicity statistics which were not historically tracked.

Gender diversity statistics

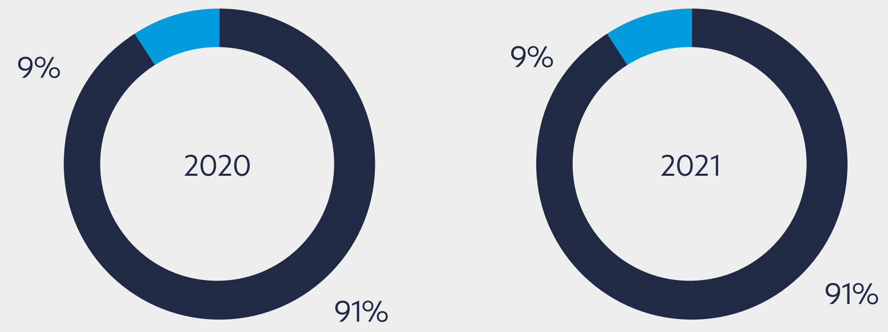
All employees

■ Male ■ Female



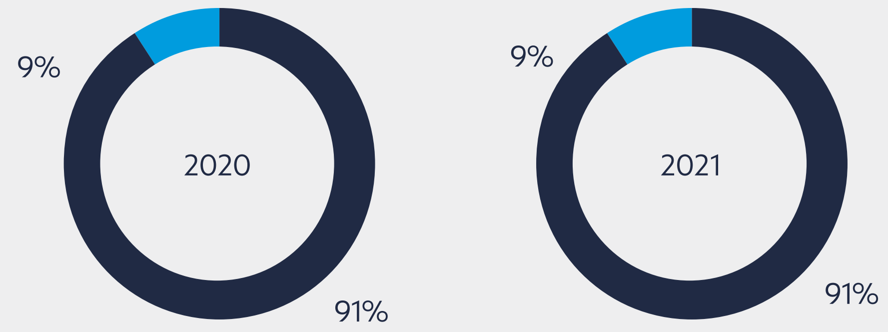
Executive Management Committee[7]

■ Male ■ Female



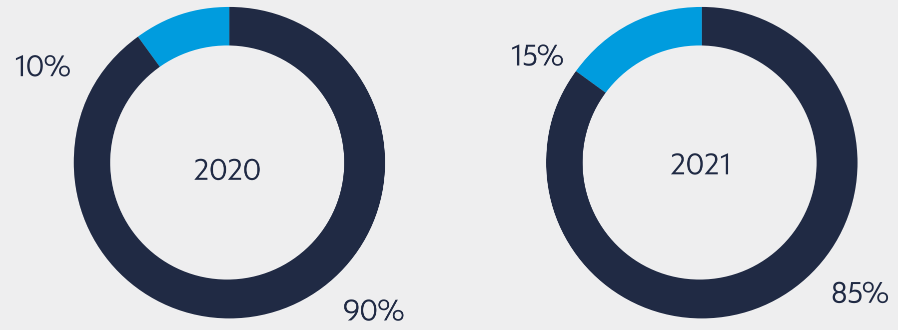
Investment Committees[8]

■ Male ■ Female



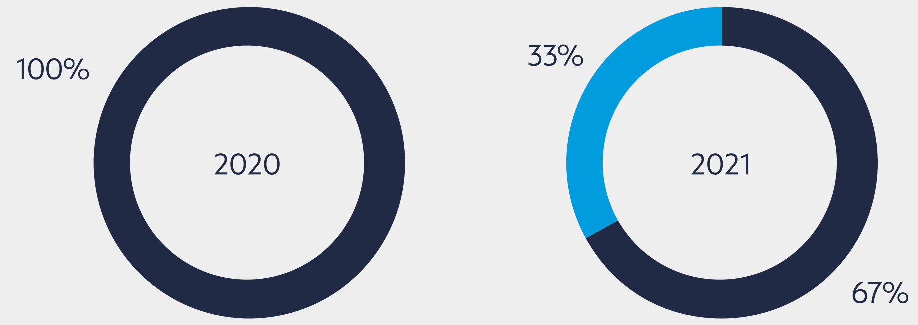
Investment Team

■ Male ■ Female

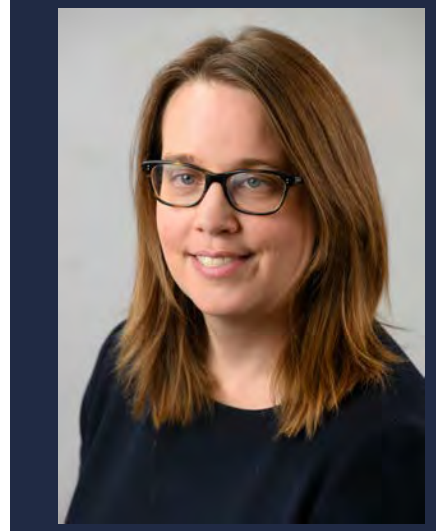


Fund Board of Directors

■ Male ■ Female



7. Direct Lending Investment Committee members as well as the COO and CFO
8. Both Direct Lending and Capital Solutions investment committees



"Arcmont is an equal opportunities employer who values people with diverse backgrounds, experiences and opinions. Improving our DEI efforts and reviewing the degree to which we represent a diverse cross-section of society across the firm creates better value for our investors and stakeholders."

SARAH PRINCE, CHIEF FINANCIAL OFFICER

SPOTLIGHT

Diversity of Opinion

At Arcmont, we value diversity of opinion for both investment and operational decisions.

- Every member of firm voted on the name and logo of Arcmont before we became independent
- Every member of the investment team attends the bi-weekly Investment Committee meetings and are asked to vote on each investment opportunity
- Every member of the firm is involved in the decision around the location of our annual offsite events
- Every member of the firm is able to voice their opinion via our employee suggestion box which is periodically reviewed by the Arcmont Board

2022 INITIATIVES

DEI Audit and Survey

We recently engaged an external advisory firm to conduct both a DEI audit to assess our current position and assist with a DEI survey to better understand the composition of our workforce. Once completed, we will then look to develop a DEI strategy which will include a comprehensive action plan to increase representation levels across the firm.

DEI Committee

We are in the process of establishing a DEI Committee which will be responsible for driving forwards Arcmont's DEI efforts and initiatives. This will be led by volunteers, who will provide input into our DEI strategy.

DEI Training

We are looking to increase the frequency and depth of the DEI training we provide employees e.g., as part of on-boarding training and on an ongoing basis. In addition, we will also be providing senior members of staff with additional DEI training to ensure the correct tone is set from the top.

RESPONSIBLE OPERATIONS

Climate change

Climate change is a systematic issue effecting every sector and asset type. We therefore believe that asset managers have a responsibility to support the transition to a low carbon economy, and we are highly committed to doing so.

In 2021, we closely observed numerous instances of the devastating impacts of climate change including record-breaking extreme heat events, heavy rainfall and flooding and catastrophic wildfires. These events further highlight the urgent need to accelerate the transition towards global net zero emissions. Starting with measuring and reducing our own impact, we aim to lead by example.

GHG Emission Measurement

For the first time, we calculated our carbon footprint for the financial year 2021. The measurement included measuring our Scope 1, 2 and 3 emissions in accordance with the Greenhouse Gas Protocol. Now that we have a baseline measurement, we are currently developing a comprehensive carbon reduction strategy, in line with the Paris Agreement.

Scope 3 Financed Emissions

Given the size of our portfolio companies, it is rare for them to measure their emissions. Due to this, we modelled and estimated these as part of our Scope 3 emissions. The results are available on request. Note that these are the largest emissions category for Arcmont.

9. Figures have been rounded for reporting purposes. Scope 2 figure is market-based. Scope 3 figure excludes emissions from investments
10. Excludes financed emissions
Source: Arcmont Data as of July 2022

Scopes explained

Scope 1

Direct emissions from sources owned and controlled by the company

Refrigerants from A/C units used in Arcmont's UK office.

Our Scope 1 emissions from refrigerants amounted to **<0.01 tCO2e** in 2021. Our Scope 1 emissions are close to zero, reflecting the fact that our ownership and control of direct sources of emissions is extremely limited in our UK office, comprising only fugitive emissions from A/C equipment. We do not own or control stationary or mobile combustion sources.

Scope 2

Indirect emissions from the consumption of purchased electricity, steam, heat and cooling

Purchased electricity, chilling, and air handling for Arcmont's UK office.

Our absolute Scope 2 emissions amounted to **41.92 tCO2e** according to the market-based calculation method, or 22.70 tCO2e according to the location-based calculation method in 2021. Total energy consumption in 2021 was **106,930 kWh**.

Scope 3

All other indirect emissions linked to the company

Business travel, employee commuting, purchased goods and services, waste and investments.

Excluding our portfolio companies' emissions, our absolute Scope 3 emissions amounted to **69.14 tCO2e** in 2021.

GHG emissions by scope[9]

Scope	Absolute Emissions (tCO2e)
Scope 1	0
Scope 2	42
Scope 3	69
Total	**111**

<0.01 tCO2e

Scope 1 emissions from refrigerants in 2021

41.92 tCO2e

Scope 2 emissions according to the market-based calculation method in 2021

106,930 kWh

Total energy consumption in 2021

Carbon neutral

Across Scope 1, Scope 2 and select Scope 3 emissions[10]

Offsetting Our Emissions

In the short term, to show our dedication to taking climate action, we offset our 2021 Scope 1, 2 and select 3 emissions (excluding our financed emissions), and have included an additional 10% offset buffer to account for any margins of error in the quantification of these emissions. As our financed emissions are estimates and analysis is still ongoing, we have elected to omit this carbon source from our FY21 carbon offset strategy.

Please note that we do not consider carbon offsetting as a stand-alone action, we are primarily focused on reducing our emissions. Going forward, we will only use offsetting to take responsibility for the emissions we cannot reduce.

2022 INITIATIVE

Financed Emissions Data

We are in the process of developing initiatives to encourage our portfolio companies to track, measure and ultimately reduce their emissions. As part of these new initiatives, we expect to be able to substitute estimates for real data over time.

RESPONSIBLE OPERATIONS

Climate Change continued

Corporate Environmental Initiatives

We aspire to engage meaningfully with regulators, policymakers and other influential authorities to shape policies and initiatives designed to hasten the transition to a low carbon economy.

2021 Global Investor Statement to Governments on the Climate Crisis

This year, we supported the 2021 Global Investor Statement to Governments on the Climate Crisis which is coordinated by the seven Founding Partners of The Investor Agenda, calling on governments to accelerate action to tackle the climate crisis.

TCFD

In January 2022, Arcmont joined more than 3,000 organisations around the world in declaring support for 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.

INFORMATION

TCFD

The TCFD provides a set of recommendations for consistent disclosures to help Financial Market Participants ("FMPs") understand climate related risks and opportunities. The goal is to help companies provide better information to support informed capital allocation. The recommendations are structured around four thematic interrelated areas that represent core elements of how companies operate and are supported by 11 recommended disclosures that build out the framework.

1. Governance
2. Strategy
3. Risk Management
4. Metrics and Targets

For more information please visit the TCFD website

2022 INITIATIVES

Improve Engagement Efforts

We are investigating additional external collaborations such as the PRI-Coordinated Collaborative Platform engagements, Climate Action 100+, the Initiative Climate International (iCI).

We are also investigating opportunities to engage with policy makers and will continue to stay informed about any developments surrounding climate-related regulations to understand how these can effect both our business and investments.

2022 INITIATIVES

TCFD-Aligned Reporting

We plan to publish our first TCFD-aligned report for FY22. The gap analysis conducted in FY21 identified areas of improvement which we have already started to address.

The benefits of TCFD reporting include an effective evaluation of climate risks for our business, allowing us to make better-informed decisions. Additionally, it contributes to strategic planning to better evaluate risks over the short, medium, and long term.

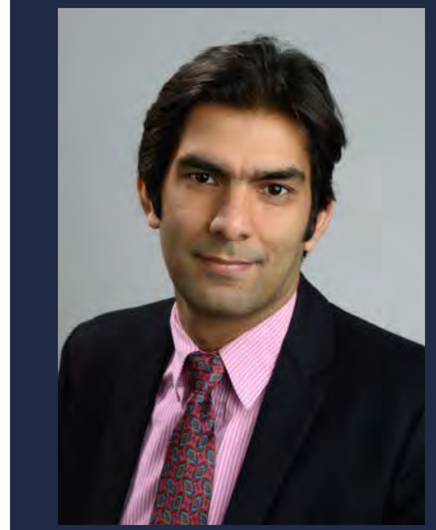
RESPONSIBLE OPERATIONS

Data safeguarding and systems

As our business continues to grow, data safeguarding and systems' efficiency become increasingly important.

Data Safeguarding

Data Safeguarding is one of our most important priorities. We have developed procedures, set guidelines, regularly provide training, and assess the effectiveness of controls relating to the protection of privacy and data. Our approach is documented in our Data Protection Policy and is applicable to all relevant data within the firm. We uphold global data protection and privacy requirements, such as the European Union General Data Protection Regulation ("GDPR"), and closely monitor applicable regulatory developments to ensure we remain compliant and adopt market best practice.



"We will continue to automate our expanding operations and further enhance system capabilities to protect data and generate further value for our stakeholders."

JATINDER SINGH, CHIEF TECHNOLOGY OFFICER

Source: Arcmont Data as of July 2022

We have also developed a robust cybersecurity risk management framework to ensure data is protected by from cybersecurity attacks. We regularly train our employees on identifying different forms of cybersecurity threats and attacks as well as how to best respond to such incidents. The training is conducted via online modules and is mandatory for all employees. Additional training modules are required for specific target groups such as senior managers and material risk takers. To test employees' preparedness and ability to handle cyber threats appropriately, we regularly carry out phishing tests. Furthermore, members of the Operational Risk Committee participate in an annual tabletop exercise conducted by a third-party to simulate a real-life cybersecurity incident.

Our cybersecurity framework is supported by leading third-party technology partners who provide additional controls over our systems and assist with regular cybersecurity due diligence and penetration testing. We recently undertook a full cybersecurity review with assistance from a leading cybersecurity specialist which included a comprehensive assessment of our systems, phishing tests, penetration tests, simulated cybersecurity tabletop exercise, training and independent due diligence reviews of key vendors security. We were pleased with the results of the review and have begun addressing the few weaknesses identified. On the back of the positive results, to showcase our advanced security framework, we have applied for the Cyber Essentials Plus qualification.

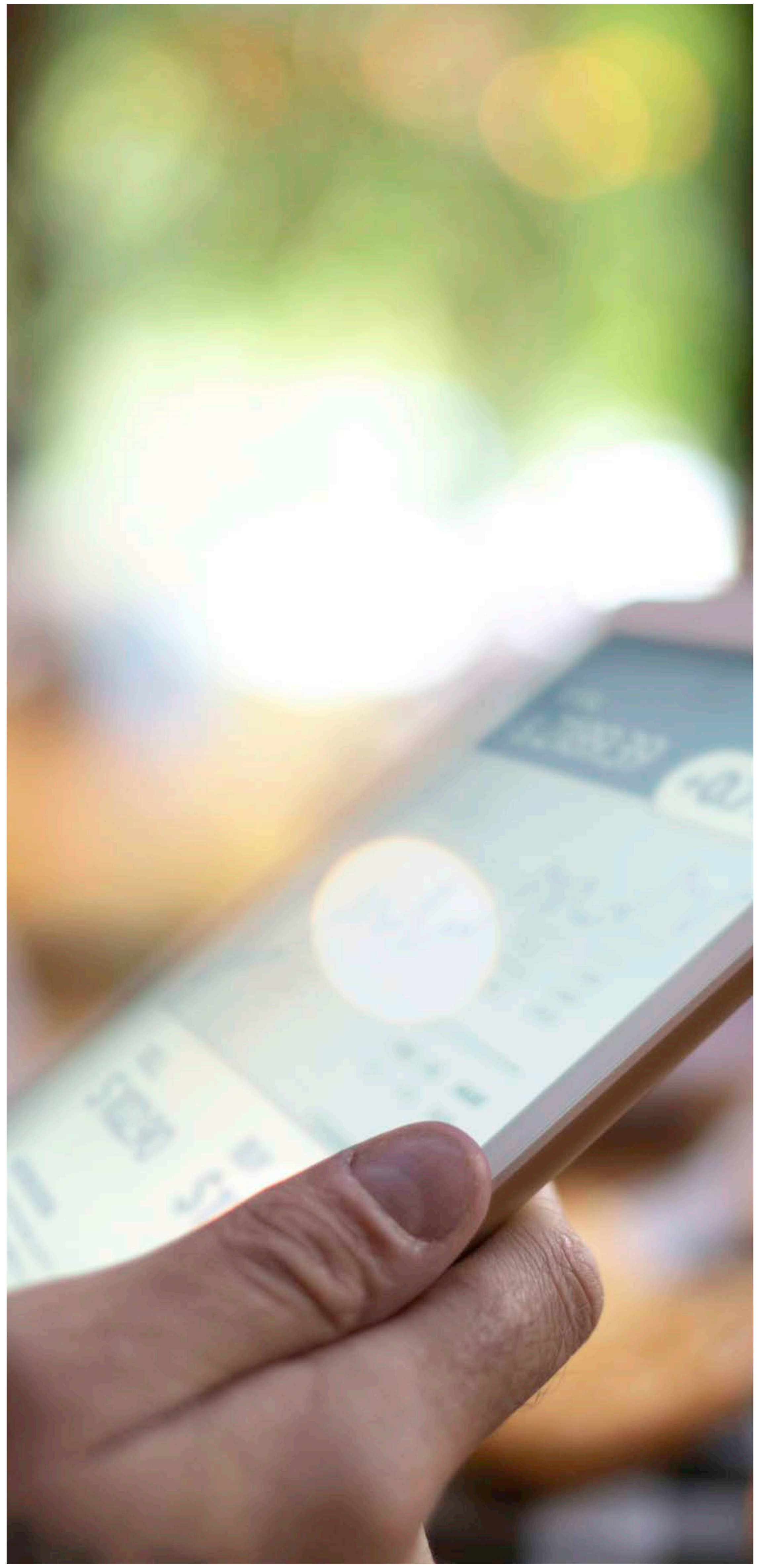
Systems

Since we became independent we have invested extensively in our systems, focusing on improving data security and operational efficiency. To date, we have successfully set up a new customer relationship management system for the sourcing and deal teams, automated our portfolio monitoring process, integrated a new order management system to streamline our allocation process and built a new data warehouse for all our investor reporting. This has significantly improved internal operational effectiveness as well as our investor reporting.

As we continue to expand our operations, our focus is on improving automation and further enhancing system capabilities to generate further value for our stakeholders.

>650
data points captured or calculated for each borrower

>20k
transaction events processed each year



RESPONSIBLE OPERATIONS

Our investors

Strong client relationships are fundamental to the success of our business. Our vision is to continue to earn investors' trust, acting as a partner in their capital allocation goals and to continually improve our services and responsiveness, ensuring that we can meet their evolving needs.

We are proud of our client-centred approach, and we are determined to deliver excellent investor experiences, starting with fundraising and culminating in a long-term partnership.

Business Development Team

The Business Development team leads our fundraising efforts. The team prioritises specialisation and each member has deep subject-matter expertise. Crucially, each member is based locally in their respective markets, with relevant language skills and expertise in local regulatory requirements. This ensures that our investors can be confident that their Arcmont representative understands their requirements and can solve for their individual needs.

350+
investors

34%
CAGR growth in client assets since 2015

Source: Arcmont Data as of July 2022

Client Services Team

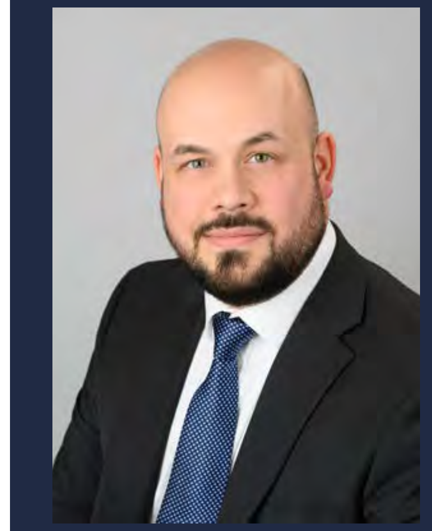
The Client Services team manages investor relations during the fund life and beyond. The team aspires to be peer-group leading in client servicing. Equipped with a highly experienced client-facing team, they are able to facilitate any information requirements for investors. The team is split into dedicated roles to provide a consistent level of servicing to investors.

Investor Information

Our reports and communications with investors are designed to be transparent and comprehensive, and we strive to provide 'best-in-class' reporting. We have sufficient resources and comprehensive procedures that ensure transparent communication with existing and prospective investors. Information about our products is provided in strict compliance with applicable regulatory guidance. Further, all advertisement and marketing materials are reviewed in accordance with our compliance procedures and policies.

Investor Engagement

To provide our investors with the most-up-to-date information, we host regular investor updates via video-link and in-person in addition to our Annual General Meetings. Investors also have unfettered access to the Client Services team who are on hand to answer any questions.



"The Client Services team is dedicated to proactively meeting the needs of our investors."

REINARD VOLSCHENK, HEAD OF CLIENT SERVICES

Dedicated functional roles

Business Development

United Kingdom	DACH	Nordics	ME & APAC
2 team members	1 team member	1 team member	1 team member

US	Italy	France
1 team member	1 team member	1 team member

Client Services

Investor Coverage	Investor Coverage	Investor Coverage	Operations
High-touch investor servicing: SMA coverage, co-investments, advisory boards, and presentations	Quantitative requests and ad hoc analytics for existing and new investors	Due diligence questionnaires, RFPs, existing investor queries	CRM system, events, external communications, audit requests, on-boarding, and projects
2 team members	1 team member	4 team members	2 team members

RESPONSIBLE OPERATIONS

Our communities

We recognise our ability and opportunity to uplift the communities in which we live and work in by using our expertise and resources. Giving back through philanthropic funding and our own expertise supports the growth and sustainability of our communities.

Investing Potential Programme

In 2021, we joined the Investing Potential Programme. Since joining, over the last two years, four A-level students have joined us to learn about asset management and Private Credit. The programme aims to provide work experience to students in order to increase awareness of finance as a career choice, ultimately supporting a long-term aim of increasing diversity of social backgrounds in Private Credit and increasing social mobility more generally.

Each year, a three-day programme was run where two students had direct exposure to all elements of the Arcmont business, including investment, finance, operations, portfolio monitoring and fundraising. Through a series of meetings and tasks led by appointed mentors, they were shown various career paths available in the industry and were able to learn from, and ask questions of, a large number of individuals in the firm, from analysts through to the CEO. Feedback from all students was extremely strong, and we look forward to continuing our participation in the programme.

"I really enjoyed my time at Arcmont. I learnt a lot about the firm, the Private Credit industry and the investment process. In addition to being educated by different teams within the firm about their roles, I worked on an investment memorandum. It was really fun and I felt like part of the team!"

YASIR, INTERN, PRIVATE CREDIT INVESTING POTENTIAL PROGRAMME

SPOTLIGHT

Ukraine Donation

We continue to see the devastating impact on Ukrainian families and civilians. To support a range of vulnerable groups who have been displaced or affected by the war, Arcmont donated £25,000 to the Disasters Emergency Committee for their Ukraine Humanitarian Appeal. We continue to identify actions we can take to support those in need.

For more information please visit the Disaster Emergency Committee website

£25k
donated to humanitarian aid for Ukraine

£1k
matching scheme donation per employee

2022 INITIATIVES

Charity Committee

We are in the process of establishing a Charity Committee which will be responsible for governing and improving our philanthropic efforts. This will be led by volunteers who will be responsible for recommending recipients for donations and reviewing charitable matching requests.

Charitable Matching

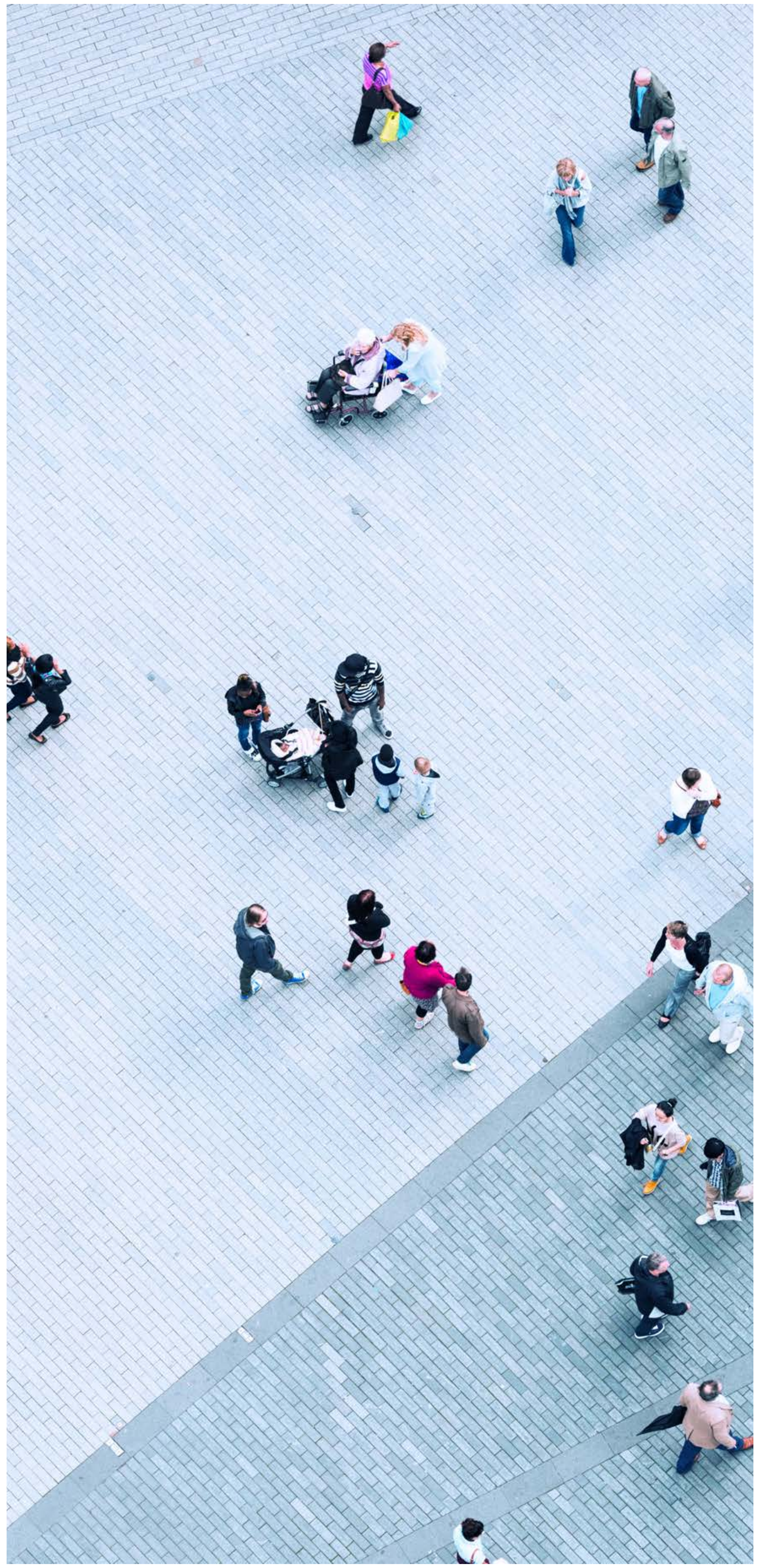
Our people continue to demonstrate care, passion, and commitment to support communities and charity groups. Recognising the challenge posed by the pandemic and other societal concerns, we aspire to back our employees' dedication towards supporting those less fortunate. We recently established a charitable matching programme where every donation made by our employees will be matched by Arcmont by up to £1,000 per person.

Volunteer Day

We intend to offer our employees a volunteer day to allow and encourage them them to support a charity or community group of their choice.

Carbon offset

For FY22, we plan to offset any emissions we cannot reduce by purchasing carbon credits that not only credibly remove carbons from the atmosphere, but also generate other environmental and socioeconomic benefits such as poverty reduction and biodiversity conservation.



Responsible Governance

RESPONSIBLE GOVERNANCE

Ownership, control and governance

Our corporate governance structure is designed to foster accountability and transparency in the way we operate and conduct business, ensuring we can achieve our strategic objectives.

Ownership

The Private Debt team was founded in 2011, originally as the BlueBay Private Debt business. In 2019, we span-out, becoming an independent majority employee-owned business of 43 employees. Today, we are a team of over 90 people, each with a vested interest in the business' success.

Control and Governance

At Arcmont, we recognise the importance of effective corporate governance, especially as our team and operations grow. Today, we operate with a formal governance structure comprising multiple subject-specific committees with defined responsibilities. This facilitates effective and prudent management which is essential to deliver the long-term success of our business.

Executive Committees

Executive Board

Board

Ultimate responsibility for the business strategy and risk framework of the firm

Executive Management

Management Committee

Responsible for determining the strategic direction of the firm

Investment Oversight

Private Debt Investment Committee

Determines the investments and divestments which should be made by Arcmont's Direct Lending and Senior Loan vehicles

Capital Solutions Investment Committee

Determines the investments and divestments which should be made by Arcmont's Capital Solutions vehicles

Portfolio Oversight

Portfolio Management Committee

Carries out periodic reviews of the Fund's portfolios to monitor credit quality, diversification, yield dynamics and downside protection

Portfolio Risk Monitoring Committee

Agrees the investments that should be on the Watch List following the quarterly Portfolio Management Committee meetings

Operational Oversight

Risk Committee

Deal Approval Committee

Reviews investments and divestments, restructurings, and approves the Allocation Policy

Conflicts of Interest Committee

Oversees conflicts of interest framework

Valuations Committee

Determines valuation policy and valuation recommendations

Operational Risk Committee ("ORC")

Oversight of operational risk framework

Product Governance Committee

Ensures compliance with MiFID II Product Governance Requirements

ESG Committee

Responsible for oversight of all ESG activities

IT Risk & Information Security Committee

Oversees arrangements to prevent IT or information security breaches

Best Execution Sub-Committee

Monitors compliance with the MiFID II Best Execution regime

RESPONSIBLE GOVERNANCE

Business ethics and integrity

We take a strong stance on our ability to provide services that satisfy the highest professional and ethical standards of the industry.

Building an Ethical Culture

Our Code of Ethics demands the highest standards of professional and ethical conduct from all employees. We maintain a Code of Ethics breach log and ensure that all breaches are escalated accordingly.

Further, we strongly encourage our employees to raise concerns of any suspected violations of our Code of Ethics and other wrongdoings. Our Whistleblowing Policy lays out mechanisms for employees to report concerns of any suspected misconduct, breaches of our policies, or any non-compliance with legal and compliance requirements. The policy offers protection from dismissal and unfavourable treatment for employees who report suspicions of wrongdoing.

We have a comprehensive Compliance Monitoring Programme to ensure that business activities are being undertaken in accordance with our policies and procedures as well as our applicable regulatory obligations. The Programme covers Compliance and Financial Crime Prevention issues and includes quarterly monitoring that is conducted by our Compliance Consultant, Optima Partners. This is supplemented by ongoing monitoring, specific reviews, in-house compliance projects and training to ensure all staff are aware of their regulatory obligations and any policy changes. The Compliance Monitoring Programme is reviewed on an ongoing basis and updated to reflect regulatory developments, market practice and our business activities.

In order to ensure that all staff members are aware of their responsibilities with regard to Arcmont's policies, all employees are required to complete regular compliance training which is offered as a combination of online and in person training. The topics covered include, Financial Crime Prevention, Market Abuse, Conflicts of Interests and the Senior Managers and Certification Regime. Periodically, the Compliance team arranges training sessions which are tailored to specific regulatory development and/or updated policies and procedures.

UNGC Alignment Analysis

We strive to continually upgrade the way we operate and conduct business by incorporating the best-in-class corporate sustainability practices such as those recommended by the United Nations Global Compact ("UNGC"). Accordingly, we recently conducted an internal alignment assessment to evaluate our compliance with the UNGC ten principles. We are proud of our continued alignment both at firm and fund levels.

INFORMATION

UNGC

The UNGC is a voluntary initiative that calls on businesses to (i) align their strategies and operations with ten principles in the areas of human and labour rights, environmental protection and anti-corruption and (ii) take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals ("SDGs"), with an emphasis on collaboration and innovation. The initiative provides a principle-based framework for signatories to follow.

For more information please visit the UNGC website

2022 INITIATIVES

UNGC Signatory

To reaffirm our commitment to upholding the highest standards of responsible business conduct, we are currently exploring becoming a signatory to the UNGC. We have already started addressing the areas of improvement identified from the alignment assessment and intend to submit a formal application to the initiative.

UK Stewardship Code 2020

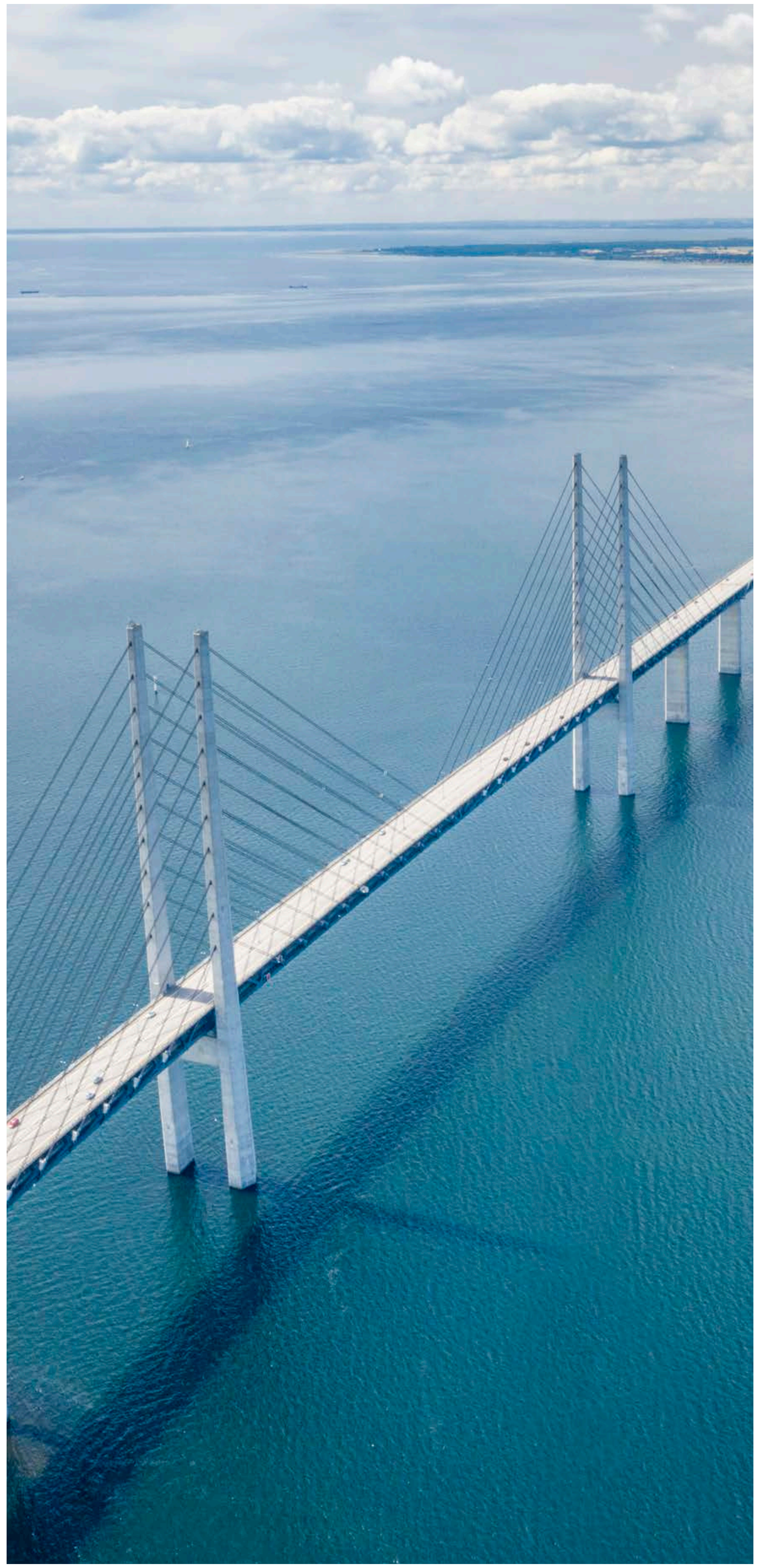
To reaffirm our commitment to adhering to the highest stewardship standards, we intend to become a formal signatory to the UK Stewardship Code. Accordingly, this year we will be looking to submit a Stewardship Report to the Financial Reporting Council to showcase how we embed the principles of the Code into our operations and investment process.

INFORMATION

UK Stewardship Code 2020

The UK Financial Reporting Council's Stewardship Code is a voluntary code that sets out a number of principles relating to engagement by investors with the companies or other assets in which they are invested. The objective of the Code is to provide high stewardship standards for asset owners and asset managers, and for service providers that support them.

For more information please visit the UK Financial Reporting Council's website



Management of the legal & regulatory environment

Complying with legal requirements and staying ahead of regulatory changes are essential for business continuity.

We believe effectively managing the regulatory and legal landscape is business imperative and we aim not only to achieve compliance but also to adopt best practices as recommended by regulators. We also recognise the opportunity to use our platform to advocate for collective progress in our industry and communities through public policy initiatives.

Compliance with Laws and Regulations

We maintain a regulatory developments tracker to keep abreast of upcoming legal and regulatory changes. We strive to embody both the letter and spirit of applicable legal and regulatory requirements. To the best of our knowledge and belief, our organisation or any affiliates are not the focus of any pending or ongoing litigation, formal investigation, or administrative proceedings.

As for current regulatory updates, specifically in the context of ESG, the funds Arcmont acts as portfolio manager to are EU domiciled Alternative Investment Funds ("AIFs") in scope of EU ESG-related regulations including the SFDR and the EU Taxonomy Regulation ("the Taxonomy").

INFORMATION

SFDR

The SFDR imposes mandatory reporting obligations on FMPs with the goal of providing greater transparency on the sustainability characteristics of financial products. The extent of the disclosures are determined by the classification of the financial product:

- **Article 6:** neither 8 or 9.
- **Article 8:** one that promotes environmental or social characteristics.
- **Article 9:** one that has sustainable investments[11] as its objective.

Level 1 of the regulation came into effect on 10 March 2021 and required FMPs to categorise financial products into the aforementioned articles according to their sustainability characteristics.

Level 2 of the regulation comes in force on 1 January 2023 and introduces regulatory technical standards, through which FMPs have to justify their fund categorisations through prescribed disclosures.

For more information please visit the European Commission website

We are pleased that all AIFs currently being marketed are categorised as Article 8.

Our older AIFs that were fully established before Level 1 of the regulation came into force on are classified as Article 6.

We have included the appropriate Level 1 disclosures in the 2021 audited accounts, and are closely monitoring the developments of the Level 2 disclosures to ensure we are well prepared to meet the requirements.

INFORMATION

The Taxonomy

The Taxonomy regulation sets out a classification system in respect of environmentally sustainable economic activities covering six environmental objectives ranging from climate change mitigation, climate change adaptation, to protection and restoration of biodiversity and ecosystems.

The regulation came into force on 1 January 2022 for the first two climate-related objectives amending the disclosure obligations under SFDR to extend the information to be disclosed for Article 8 and Article 9 products with an environmental focus, including:

- which environmental objective(s) to which the investment underlying the fund contributes; and
- how and to what extent the investments are in economic activities that qualify as environmentally sustainable.

For more information please visit the European Commission Website

Due to the nature of their activities, the Arcmont funds do not currently report against the Taxonomy. We continue to closely monitor developments.

Anti-Corruption Policies and Compliance

We are committed to conducting business in the most ethical manner and have a zero-tolerance policy toward bribery and corruption of any type. We have established a Financial Crime Prevention Policy which requires all employees to comply with applicable anti-corruption laws and regulations. It is mandatory for all employees to complete annual anti bribery and corruption training.

Conflicts of Interest

We maintain an extensive Conflicts of Interest ("COI") Policy and have embedded the COI framework within our business to ensure all actual or potential conflicts are identified and effectively managed. The COI Committee is responsible for overseeing the framework and any new conflicts identified must be escalated to the Committee. It is mandatory for all employees to complete annual COI training.

Protecting and Respecting Human Rights

We have a strong commitment to supporting and respecting human rights. Our human rights efforts extend beyond our four walls as we strive to prevent the occurrence of any human rights violations including modern slavery incidents across our operations and investments. The responsibility for identifying, monitoring, and managing modern slavery risks sits with the ESG Committee who are responsible for any updates and revisions to the relevant policies. Our approach to modern slavery prevention is publicly available through our Modern Slavery Transparency Statement.

For more information please see our Modern Slavery Transparency Statement

2022 INITIATIVE

Modern Slavery

This year we released our 2022 Modern Slavery Statement which is available on our website. We also plan to provide modern slavery training to all employees as part of our annual Compliance Training Programme. Furthermore, we will be enhancing our supplier due diligence to specifically screen against modern slavery using a risk based approach.

11. A sustainable investment is an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

Responsible Investment

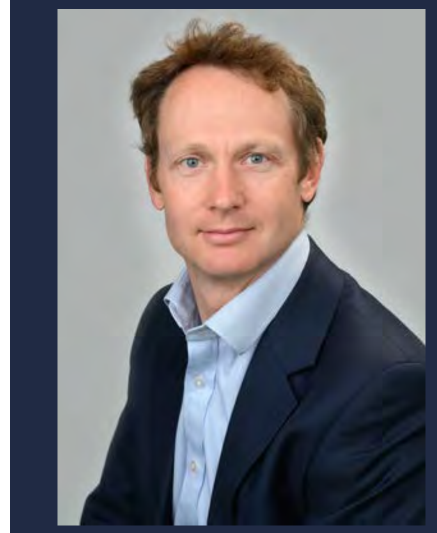
RESPONSIBLE INVESTMENT

Strategy

We aim to make responsible investment decisions, maximising the power of capital to achieve positive results.

We aim to deliver attractive, risk-adjusted returns for our investors. As ESG factors have the potential to impact investment risks and returns, it is part of our fiduciary duty to consider these in our investment process. In our view, strong ESG risk management is part of strong risk management overall.

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



"ESG is a vital part of our risk management process. The identification and evaluation of ESG risks enhances our credit analysis and enables meaningful engagement with our portfolio companies to help promote sustainable business practices."

BEN HARRILD, PARTNER AND CO-CHIEF INVESTMENT OFFICER

We integrate ESG factors with four key objectives:

Identify potential risks and opportunities to enhance investment decision-making.

Ensure portfolio companies act in a responsible manner, in line with the Principles for Responsible Investment.

Serve as a resource to middle-market companies and their sponsors regarding best ESG practices.

Provide comprehensive, transparent reporting to our investors, giving them confidence that our ESG processes are being implemented appropriately.

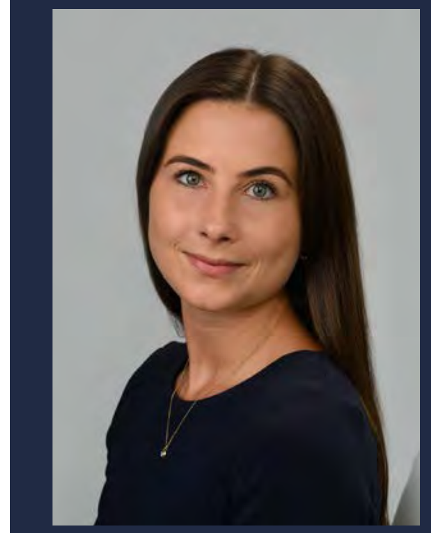
RESPONSIBLE INVESTMENT

Evolution

We have an unwavering, long-standing commitment to responsible investment and are committed to setting the highest standards.

We established our responsible investment focus nearly a decade ago when we became a member of the UN PRI, contributing to their Private Debt guidelines, and implemented dedicated ESG policies.

Over the years, we have refined and developed our responsible investment approach, culminating in a rigorous ESG integrated process. It is because of our advanced ESG practices that our latest funds qualify as Article 8 under the SFDR.



"We continue to enhance our approach to reflect our evolving responsible investment objectives and to align with the latest regulatory guidance and industry best practice, specifically addressing the needs of our investors."

TALIA ELSENER, PORTFOLIO MANAGER - ESG

Jul 2013

- Became a signatory of the UN PRI as part of BlueBay
- Adopted a formal ESG investment risk process

May 2019

- Quantitative ESG analysis introduced
- Enhanced quarterly ESG reporting

Nov 2019

- Spin out from BlueBay

Dec 2019

- Arcmont became an independent signatory of the UNPRI

Jul 2020

- Partnered with KKS Advisors

Dec 2020

- Produced a standalone annual ESG report

Aug 2020

- Reviewed entire ESG strategy and approach, including policies, procedures, products, and reporting

Mar 2021

- E&S TIP Programme implemented
- Enhanced exclusions policy
- Senior Loan Fund II and Direct Lending IV classified as Article 8 under the SFDR

Dec 2021

- First ESG Whitepaper published
- TCFD gap analysis performed

Jan 2022

- Became a public TCFD supporter
- Developed proprietary ESG assessment support tools

Jan 2022

- Enhanced our prospective borrower ESG due diligence process

Apr 2022

- Capital Solutions reclassified as Article 8 under the SFDR

RESPONSIBLE INVESTMENT

Governance

We operate a four-tiered approach to responsible investment.

ESG Committee

ESG is of critical importance to us, as such we deem it essential to have a dedicated ESG Committee to govern all ESG activities at Arcmont. The ESG Committee is a subcommittee of the Risk Committee, and is chaired by our Chief Operating Officer. Other members of the committee include our ESG Portfolio Manager, Head of Compliance, Co-Chief Investment Officer and Senior Portfolio Manager.

KKS Advisors

In July 2020, we engaged KKS Advisors ("KKS") (a DSS+ company), a highly qualified and experienced ESG consulting firm specialising in sustainable finance, to support our ESG efforts and further develop our ESG framework.

KKS is at the cutting edge of sustainable finance research and practical implementation focused on helping their financial clients deliver superior risk-adjusted returns through advanced ESG integration.

For more information please visit KKS's website

TIER 4

ESG Committee

- Oversees all ESG related activities across the firm and investment process
- Provides executive leadership on integrating ESG factors into Arcmont's wider corporate strategy
- Ensures sufficient resources are available to execute ESG-focused initiatives
- Approves every E&S TIP

TIER 3

KKS Advisors

- Advise on latest developments and best practices through ESG training
- Conduct ESG due diligence reviews and advise on ESG due diligence reports
- Independently review all ESG work performed by the investment team
- Help to develop company specific E&S TIPs and tailored engagement plans

TIER 2

Risk & Portfolio Monitoring Team

- Act as the link between the investment team and KKS
- Receive regular specific ESG training
- Completed the UN PRI's Applied Responsible Investment Course

TIER 1

Investment Team

- Receive regular specific ESG training
- Equipped to apply Arcmont's ESG policies and conduct ESG assessments
- Actively monitor ESG issues and prepare ESG reporting
- Two members of the team are dedicated ESG Champions

RESPONSIBLE INVESTMENT

Governance continued

Responsible Investment Policies

Our investment activities are operated in accordance with our ESG Investment Risk Management Policy ("ESG Policy") and ESG Exclusions Policy which apply as standard to all investments made by the Arcmont co-mingled funds, as well as by the Arcmont separately managed accounts. These policies are reviewed at least annually by the ESG committee. Note that in practice the policies are reviewed and updated more frequently due to the dynamic nature of best practice procedures and ESG-related regulations.

ESG Policy

We have operated with a formal ESG Policy since 2013, with the latest enhancements being rolled out in July 2021. In accordance with the PRI, our current policy outlines the extent and process of our ESG investment activities including our (i) ESG investment philosophy, (ii) SFDR disclosures (iii) ESG investment risk management approach, (iv) ESG governance approach and (v) contents and frequency of our ESG reporting. The objective is to provide transparency around our ESG beliefs and investment approach, while also serving as formal guidance to readers.

For more information please see our ESG Policy

ESG Exclusions Policy

We have operated with a formal exclusions policy since 2014. Until last year, our exclusions covered controversial weapons only, however, in March 2021 we implemented a comprehensive ESG Exclusions Policy to better reflect our responsible investment objectives. We use a combination of activity-specific and principles-based exclusions as detailed in the policy, and as summarised on page 26.

For more information please see our ESG Exclusions Policy

2022 INITIATIVES

Enhanced ESG Exclusions Policy

In 2022, we will be widening the scope of our ESG Exclusions Policy to better reflect both our own responsible investment objectives as well as our investors. As part of this, we will be increasing the number of climate-related exclusions.

Stewardship Policy

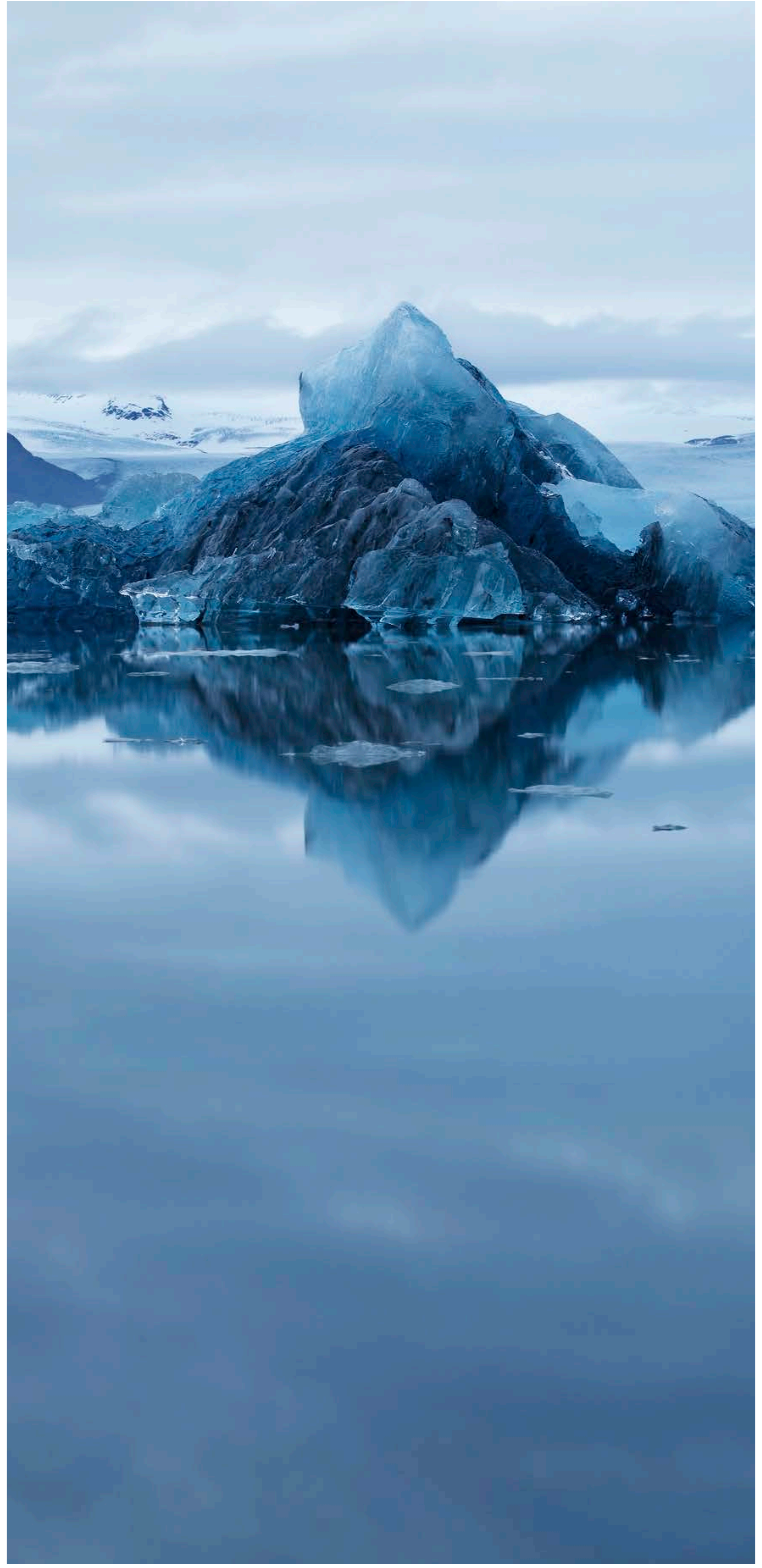
On the back of our recent alignment assessment to the PRI, we are developing a standalone Stewardship Policy, in line with core indicators ISP 11, 12 and 12.1. The policy will cover the key stewardship objectives and the prioritisation of ESG factors and their link to engagement issues and targets. It will specifically cover our approach to climate-related risks and opportunities as well as a stewardship tool to use across the organisation and any additional details related to our overall stewardship approach.

CLIMATE

Climate Policy

The release of our standalone Climate Policy has been timed to incorporate the results of our TCFD gap analysis. The policy will describe how we assess, management and mitigate climate risks in the investment process. The objective of the policy is to provide transparency to our stakeholders while also serving as a formal guideline to readers.

1. **Governance:** Our ESG committee is chaired by the COO, and comprises our ESG Portfolio Manager, Head of Compliance, Co-Chief Investment Officer and Senior Portfolio Manager. The policy will lay out clear roles, responsibilities and accountabilities for members. Further, it will state the frequency of policy reviews.
2. **Strategy:** The policy will describe our investment strategy, describing the specific climate-related risks considered in the investment process. The policy will also outline the methodology used for climate materiality assessments undertaken for each portfolio company.
3. **Risk Management:** This section will include a description of our climate risk identification, assessment and management process. It will also include details of our engagement efforts to encourage borrowers to make better climate decisions. Here we also consider the evolving regulatory landscape.
4. **Metrics & Targets:** This pillar is our opportunity area as we do not currently use climate metrics to assess climate risks due to lack of data availability. We are exploring various initiatives, including the use of specialised data providers, to overcome this challenge.

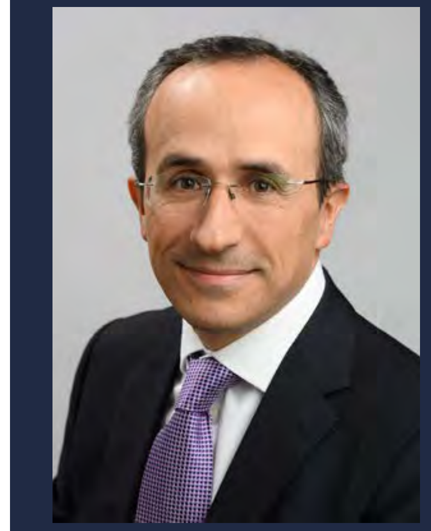


RESPONSIBLE INVESTMENT

Process

Arcmont is an ESG integrated manager, systematically considering ESG factors in the investment process.

The key principle of our ESG integration strategy is the consideration of ESG factors at every stage of the investment process, from pre-investment analysis through to post-investment monitoring.



"ESG is an intrinsic part of how we assess and engage with our borrowers. Our objective is to ensure borrowers' operations align with our responsible investment beliefs and, once we are invested, engage in order to improve their ESG profiles."

VINCENT VITORES, PARTNER AND CO-HEAD OF PORTFOLIO MANAGEMENT

Our six step process:

PRE-INVESTMENT

1 ESG Negative Screening

- Firm-wide ESG Exclusions Policy
- Combination of activity-specific and principle-based exclusions
- Specific **climate exclusions**

2 ESG Due Diligence

- Every prospective borrower undergoes a comprehensive ESG materiality assessment and is assigned an ESG Investment Impact Score
- ESG Monitoring Areas identified
- 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

INVESTMENT

3 The Final Investment Decision

- Investment Committee approval required
- Deal Approval Committee approval required
- Both committees review the pre-investment ESG due diligence and related materials
- 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 Engaging with Borrowers

- Sustainability-link in loan terms via E&S TIPs
- Targeted engagement plans for significant (+20%) equity positions
- Climate-related engagements through both avenues

5 ESG Monitoring

- Active, regular dialogue with borrowers
- 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
- Annual Sustainability Report

RESPONSIBLE INVESTMENT

Process continued

1 PRE-INVESTMENT
ESG Negative Screening

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 risk profile. However, at the deal origination stage, we believe that some activities are fundamentally counter to our responsible investment objectives by virtue of their operations. We therefore elect to limit our exposure to borrowers engaging in these activities. We use a combination of activity-specific and principles-based exclusions across all of our funds as detailed in our ESG Exclusions Policy, and as summarised on this page.

The principle-based exclusions are centred around the 10 UNGC Principles. By screening investments against these principles, we ensure that our portfolio companies are operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human and labour rights, environmental protection, and anti-corruption.

During the year, we declined to invest in a number of deals due to their lack of alignment with our exclusions policies. In addition, although not prohibited by the policy, we opted not to invest in a number of deals due to wider ESG concerns that we believed were inherently against our responsible investment objectives. Please see examples on the right of this page.

Summary of our Exclusions Policy

Excluded Activities	Exclusion Type
Violation of the UNGC principles	Absolute Exclusion
Adult Entertainment	Absolute Exclusion
Controversial Weapons	Absolute Exclusion
Conventional Weapons	Absolute Exclusion
Fur Products	Absolute Exclusion
Genetically Modified Organisms	Absolute Exclusion
Tobacco	Absolute Exclusion
Thermal Coal	Greater than 5%
Oil/Tar Sands	Greater than 5%
Nuclear Power Generation	Greater than 10%
Gambling	Greater than 25%

CLIMATE
Climate Specific Exclusions

We specifically limit our exposure to certain heavy emitting industries and products, including thermal coal and tar sands mined oil. In addition, three of the UNGC principles relate to the prevention of environmental damage:

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Examples: deals rejected due to lack of alignment with Arcmont's ESG Exclusions Policy

Company Overview	Exclusion Category	Rationale	Investment Decision
Company engaging in nickel mining with operations in New Caledonia	Violation of the UNGC Principles	Nickel mining is an environmentally damaging process and a politically sensitive issue in New Caledonia, given the tension between environmental degradation and the reliance of local populations on production. We believed that this deal would have violated the following UNGC principles: **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; due to the potential human health externalities associated with production. **Principle 7:** Businesses should support a precautionary approach to environmental challenges; due to nickel mining being an environmentally damaging process	Decline
Company selling consumable products and services to the hard rock and coal mining industry	Thermal Coal	We declined to participate in the deal due to the company's global environmental footprint, including significant exposure to the coal mining industry, above our de minimis exclusion thresholds (5% revenue threshold) for thermal coal-related activities.	Decline
Designs, manufactures, and distributes fans primarily dedicated to defence applications	Conventional Weapons	We declined to participate in the deal as the company tailors its products to better serve the defence market. Whilst we acknowledge that a number of products may have alternative uses, it was clear that this company relies almost exclusively on the defence sector to generate revenue, and modifies its products accordingly.	Decline

Examples: deals rejected due to ESG concerns

Company Overview	Rationale	Investment Decision
Provider of maritime and aircraft equipment	One of the company's largest end customer segments was defence. Whilst we did not believe that any of the company's products were explicitly offensive in nature, we could not get comfortable with the fact that the products may well be used in a conflict setting. We therefore declined to participate in the deal.	Decline
Manufacturer of steelworks	The company's former CEO was in jail and the judge described the culture as one of 'pervasive bribery and fraud'. In addition, the company was subject to recent environmental protests as it was trying to fell a nearby forest to expand its operations. We therefore declined to participate in the deal.	Decline
Manufacturer of materials used for ballistic protection equipment, tactical clothing, and protection for vehicles	The company primarily served the defence sector. We chose not to pursue the opportunity as the company's products are used in armed conflict situations.	Decline

RESPONSIBLE INVESTMENT

Process continued

2 PRE-INVESTMENT
ESG Due Diligence

Materiality Assessment and Score

Every prospective investment undergoes a comprehensive ESG materiality assessment and is assigned an ESG Investment Impact Score, the details of which are documented in a final investment memorandum and are considered by the Investment Committee and Deal Approval Committee ("DAC") before they make their respective decisions.

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

Our ESG analysis begins with the deal team performing a materiality assessment which involves outlining:

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

For this analysis, the deal team relies on a number of resources, including SASB materiality maps, sponsor ESG due diligence reports, interviews with stakeholders, and desk-based research. They also utilise Arcmont's proprietary ESG assessment support tools including databases containing:

- The top ESG risks per GICS Sector which leverages data from MSCI's Materiality Map, SASB Materiality Maps, ESG Sponsor Due Diligence Reports as well as KKS Insights.
- The top ESG risks per European country which analyses data from the UN World Bank's Country-Specific ESG Database, as well as publications from the World Economic Forum, Allianz-Risk Barometer 2021, Yale's EPI Global Report, Transparency 2020 CPI, and other publications.

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

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

Every quarter, the ESG Investment Impact Score of every investment is reviewed and updated where necessary based on monitoring updates. The scores are disclosed to investors in the quarterly ESG reports following an independent review.

CLIMATE

Climate Risk Assessment

Climate risks are considered in the ESG assessment under the E pillar and a high-level climate risk assessment is completed for every investment. Depending on the maturity of the loan, and whether or not we hold equity, we assess climate-related risks as suggested by the TCFD. We also specifically review each borrower's approach to managing their energy consumption and GHG emissions.

SDG Review

Several portfolio companies across the Arcmont funds are businesses that by virtue of their products and services deliver positive value to society and the environment. While these investments are not labelled as impact investments, and as such measurement of the realized positive social and environmental impact is beyond the scope of our strategy, they represent clear opportunities for us and our investors to gain exposure to and benefit from sustainable impact aligned businesses. Therefore, we review each borrowers' business activities for potential contributions to the UN SDGs using the Sustainable Development Investments ("SDI") Taxonomy. By applying this methodology, we identify any relevant SDG sub-goals and then assess the magnitude of contribution.

Independent Review

Once the deal team have completed and documented the materiality assessment, score and SDG alignment, the materials are sent to KKS for an external review.

INFORMATION

SDI Taxonomy

The SDI Taxonomy is established and maintained by the Asset Owner Platform ("AOP") and is a taxonomy of solutions that contribute to the SDGs. It can be used to classify companies for their contribution to the SDGs in a credible and consistent manner. The Taxonomy credits contributions to the SDGs through products and services (solutions) and not contributions through operations and conduct. Although the company classifications by the SDI AOP were originally launched for listed entities, the methodology can be applied to private assets as it offers comprehensive examples of contributing activities under each SDG sub-goal as well as a framework to assess the magnitude of contribution: Major (>50% revenue) and Decisive (≤50% revenue). Using the guidance materials provided by AOP, we manually assess all of our investments for potential classification as SDI.

For more information please visit the SDI AOP website

Examples: SDIs

	Company Overview	SDG Alignment	Magnitude
A	French real estate diagnoses specialist, whose activity is strongly focused on asbestos diagnoses before works, mainly for the social housing segment.	11 SUSTAINABLE CITIES AND COMMUNITIES	Major
B	An environmental risk reduction specialist who works with hydrocarbons and other environmentally harmful materials. The company responds to emergencies involving these chemicals and also has an environmental consulting service.	11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Decisive
C	Developer and manufacturer of glass reinforced plastic liners that enables the trenchless and eco-friendly repair of existing sewer pipes. Focus on long-lasting pipe rehabilitation with environmentally conscious products that are resource saving.	6 CLEAN WATER AND SANITATION	Major

RESPONSIBLE INVESTMENT

Process continued

3 INVESTMENT The Final Investment Decision

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

In practice, the DAC is engaged in the process from the outset, highlighting any issues that need to be addressed before the deal can be approved. This means that deals that make it to this stage will likely be approved.

4 POST-INVESTMENT Engaging with Borrowers

Arcmont is committed to engaging with borrowers during our holding period in an attempt to improve their ESG profiles. The structure of the investment will determine our approach, please see details below.

E&S TIPs

For investments where we are lenders, we have more limited mechanisms to influence our borrowers than equity owners. To overcome this, we developed and implemented our E&S TIP Programme for new primary borrowers, 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.

Each E&S TIP comprises three progressive targets centred around a material environmental or social issue the borrower faces. We have an internal policy to offer every new primary borrower the opportunity to participate in our E&S TIP Programme.

We employ a bespoke, materiality first approach when setting E&S targets for borrowers, focusing on issues that are likely to have the most significant financial impact, based on the result of the ESG assessment that is conducted at the initial due diligence stage. This approach ensures that all E&S TIPs are tailored to the characteristics of the borrower, incorporating factors such as their 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 ("SLLP") published by the Loan Market Association, where possible, utilising a bespoke SLLP scorecard to easily assess alignment and identify gaps to be addressed.

Voting

Given Arcmont is a Private Debt asset manager, there is limited scope to participate in voting activities where we have a blocking/majority vote. We may be able to vote in limited instances where investments take on an equity element and we are assigned voting board seats, or in the rare circumstances that we become a majority shareholder of the business. In such cases, we ensure that we make appropriate use of our votes, specifically considering ESG factors.

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%), 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 KPIs annually.

TIP Process

2022 INITIATIVE

E&S TIP Relaunch

The rollout of our E&S TIP Programme has been welcomed by our investors and borrowers. However, due to their bespoke, collaborative nature, they take time to implement.

To accelerate the roll-out of the programme, we have been working on streamlining the process and plan to relaunch an enhanced programme in July 2022. The strengthened programme will focus on collecting quantitative E&S data from our borrowers, specifically focusing on climate and DEI metrics. This will ultimately improve our ESG reporting to investors.

INFORMATION

SLLP

The SLLP are voluntary recommended guidelines that capture the fundamental characteristics of sustainability-linked loan products and are based around the following five core components:

1. Selection of Key Performance Indicators
2. Calibration of Sustainability Performance Targets
3. Loan characteristics
4. Reporting
5. Verification

The goal of the SLLP is to promote the development and preserve the integrity of these loans, ultimately promoting sustainable development more generally.

For more information please visit the LMA website.

RESPONSIBLE INVESTMENT

CASE STUDY: PROJECT FLUTE

Promoting Sustainable Material Sourcing

Company Activity

Producer of high-quality flexible plastic packaging for the food and hygiene sectors.

Material E/S Issue: Plastic Waste Management

Producing and distributing plastic products has a negative environmental impact. Plastics are made from chemicals which are harmful to the environment and wildlife, and plastic pollution is one of the most pressing environmental concerns of this generation. With increasing public awareness and new regulations coming into force, the company is at risk of becoming stranded.

Evaluation of Current Management of the Issue

The company is acutely aware of this risk and has a public commitment in place to reduce its environmental impact through various initiatives. At the start of our investment, only parts of the group were tracking the share of recycled raw materials used for non-food packing. In 2020, these parts of the group used c. 20% of recycled raw materials in non-food packaging. We saw an opportunity to encourage the company to do more within an accelerated timeline.

Overall Aim of the TIP

Increase the share of recycled raw materials used for non-food packaging across the group. By doing so, the company will reduce its overall environmental impact, mitigating the transition risk it faces which will lead to better financial outcomes.

Improvement Targets	Improvement Target 1	Improvement Target 2	Improvement Target 3
Target Details	Roll out the measurement & tracking system across the group and then increase the share of recycled raw materials used in non-food packaging across the group to 23%	Increase the share of recycled raw materials used in non-food packaging across the group to 30%	Increase the share of recycled raw materials used in non-food packaging across the group to 37.5%
Metric	Recycled raw materials (tonnes) used for non-food packaging as percentage of total raw materials (tonnes) used for non-food packaging		
Evidence	Tonnage information provided by the borrower from accounting systems		
Baseline Year of Data	FY2020		
Baseline Data	20%		
Milestones	End of March 2022, tested annually following achievement	End of March 2023, tested annually following achievement	End of March 2024, tested annually following achievement

Case studies shown are for illustrative purposes only

CASE STUDY: PROJECT CAPRI

Promoting Renewable Energy Consumption

Company Activity

A global luxury fashion brand.

Material E/S Issue: Energy Management

A substantial amount of energy from non-renewable sources is consumed during the clothing production process, across all offices and stores as well as in the process of transporting goods and people. Energy from non-renewable sources has a high negative environmental impact. With new energy-related regulations coming into force and increased demands from customers for companies to reduce their environmental impact, the company may suffer from increased costs, potential fines and reduced demand for its products.

Evaluation of Current Management of the Issue

The company has developed a climate strategy which includes implementing renewable energy into their operations, exploring ways to limit the use of carbon-intensive transport modes, optimizing shipping routes, reducing packaging, and working with suppliers to reduce negative impacts. At the time of our investment, the company had internal targets to achieve 50% renewable energy by 2025 and 100% by 2030. We saw an opportunity to encourage the company to do more within an accelerated timeline.

Overall Aim of the TIP

Encourage the company to transition from using energy generated from non-renewable sources to renewable sources in order to reduce its negative environmental impact. Simultaneously, we anticipate energy consumption-related cost savings.

Improvement Targets	Improvement Target 1	Improvement Target 2	Improvement Target 3
Target Details	Increase the Renewable Energy Ratio to 25% by June 2023	Increase the Renewable Energy Ratio to 50% by June 2024	Increase the Renewable Energy Ratio to 75% by June 2025
Metric	Renewable Energy Ratio (%): the % of total energy from renewable energy sources		
Evidence	Purchase agreement of Energy Attribute Certificates (“EACs”)		
Baseline Year of Data	FY2021		
Baseline Data	0%		
Milestones	End of June 2023, tested annually following achievement	End of June 2024, tested annually following achievement	End of June 2025, tested annually following achievement

RESPONSIBLE INVESTMENT

Process continued

5 POST-INVESTMENT ESG Monitoring

We are committed to maintaining an open and active dialogue with borrowers, enabling us to monitor the ESG risk profiles of our portfolio companies, assessing the severity of the risks, whilst moving to take appropriate action should a risk become too great.

For all companies included in our portfolios, we ensure that our deal teams continue to foster their relationships with management teams and sponsors and continue to engage on ESG Monitoring Areas identified over the course of our investment. For those companies enrolled in the E&S TIP Programme or with a tailored engagement plan, milestone updates are required to ensure that the borrower is on track to meet the targets set.

This year, we enhanced our ESG monitoring, specifically assessing our borrowers' exposure to and management of the material ESG risks associated with the GICS sub-industry they operate in, as prescribed by MSCI. We also began specifically assessing borrowers' exposure to and management of climate risks, specifically their management of GHG emissions and energy consumption.

The continuous monitoring of ESG risks has not resulted in any material issues during the year.

"At Arcmont, we are committed to being transparent with our investors about all aspects of our business, including our sustainability efforts."

NATHAN BROWN, CHIEF OPERATING OFFICER

6 POST-INVESTMENT ESG Reporting

We are committed to providing timely and transparent ESG reporting to our investors and do so on a quarterly basis. The quarterly 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 SDGs, if applicable.

This quarter, we enhanced our ESG reporting to investors as a result of the aforementioned ESG monitoring and systems improvements.

Furthermore, this year and for all years going forward, we will be producing an annual Sustainability Report which will showcase our sustainability efforts for the year completed and our objectives for the upcoming year.

RESPONSIBLE INVESTMENT

Advocacy

As a pioneer for the Private Debt asset class, we have a responsibility to act as a key driver of positive change in the industry.

We are committed to engaging with others to encourage investment decisions to be made for the long term, maximising the power of capital to achieve a positive impact.

UN PRI

We became a member of the UN PRI in December 2019 continuing the affiliation that began in July 2013 while part of BlueBay. Our continued membership affirms our commitment to responsible investing.

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. However, due to administrative issues, the PRI has delayed the release of the Transparency Reports and the results of the annual assessment until Q3 2022. Also note that the next reporting cycle has been delayed until early 2023.

PRI PDAC

We are pleased to announce that Nathan Brown, our Chief Operating Officer and Chair of the ESG Committee, has been appointed as a member of the UN PRI's Private Debt Advisory Committee ("PDAC"). The purpose of the committee is to specifically solve for the ESG challenges faced by the Private Debt asset class. Nathan welcomes this challenge and the opportunity to contribute to developing a Private Debt specific ESG framework.

Alternative Credit Council

Nathan also serves as the Co-Vice Chair of the Alternative Credit Council ("ACC"), a global body for the Private Credit and Direct Lending space. Together, members manage over $600 bn of Private Credit assets. As an Alternative Investment Management Association ("AIMA") affiliate, the ACC offers educational and sound practice guides and represents the asset class through advocacy and regulatory engagement. We therefore have good insight into the challenges faced by the industry and are able to contribute directly to developing best practice guidelines.

Whitepaper

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 KKS. The combined positioning of Arcmont and KKS as 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 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.

The goals of the whitepaper are threefold:

1. The first is to serve as an introduction to ESG integration viewed through the lens of a mid-market private lender. Section one of the paper discusses some of the key definitions and characteristics of effective ESG integration, and highlights the challenges of its implementation in the capitalise market.
2. The second is to offer a framework for integrating ESG into the Private Debt asset class. Section 2 of the whitepaper discusses ESG integration in Private Debt across four competencies and three phases using our practices to give tangible examples of advanced practices that other market participants might work towards.
3. The third is to help the industry move towards the creation of ESG integration best practices by providing some insights and practices from Arcmont, as well as setting out expectations and trends for the future of ESG in Private Debt.

Read report

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Responsible Investing Report

Download report

Conclusion

Sustainability is a fundamental business concern that continues to evolve and grow in importance.

At Arcmont, we are firmly committed to adopting more responsible business and investment practices to better serve our stakeholders, the environment, and society. We have invested in a sustainability strategy that builds on our leading responsible investment practices, responsible operations, and supporting governance structures.

As we look to strengthen the sustainability of our business and investments, we invite our stakeholders to join us. It is within this context that we have produced an inaugural Sustainability Report which informs readers on our progress to date and communicates our focus areas for 2022.

This report discloses the results of our first internal materiality assessment, highlighting the areas we believe are critical to our continued business success. For each area, we evaluated our current position, identified gaps, and subsequently set objectives for 2022.

We are pleased with the results of the assessment which show we have a strong foundation in our operations and that we are well progressed in our responsible investment practices. This process has been essential in guiding our sustainability strategy and we are committed to refreshing the assessment on an annual basis.

The overarching objective for 2022 is to generate robust baseline performance data across all of the focus areas. We will then look to set objectives and informed targets. The goal of subsequent years will then be to track and measure the impact of our efforts, modifying our approach where necessary, to ensure we achieve our ambitious targets.

To this end, we look forward to the continued dialogue and collaboration with our people, business partners and other stakeholders with the objective of safeguarding our future.

SUMMARY OF 2022 INITIATIVES

Responsible Operations

- Strengthen our DEI policies and procedures and assess current representation levels across the firm
- Publish a comprehensive carbon reduction strategy that aligns with the Paris Agreement
- Produce TCFD-aligned reporting for FY22
- Improve efforts with external collaborations and regulatory bodies to promote positive change

Responsible Governance

- Prepare a UNGC application and Letter of Commitment, with the intention of becoming a signatory to affirm our commitment to upholding the highest standards of responsible business conduct
- Prepare a Stewardship Report, with the intention of becoming a formal signatory to the UK Stewardship Code to affirm our commitment to adhering to the highest stewardship standards
- Improve our efforts around modern slavery to assist with combating the exploitation of people

Responsible Investment

- Implement a dedicated Climate Policy, documenting our approach to assessing, managing and mitigating climate risks in our investment process
- Implement a dedicated Stewardship Policy, documenting our key stewardship objectives and the prioritisation of ESG factors, specifically highlighting their link to our engagement approach
- Enhance our existing ESG policies to better reflect the evolving ESG landscape and industry best practice
- Enhance our ESG-integrated investment due diligence process to further improve our credit analysis
- Enhance our E&S TIP Programme to accelerate the number signed and to encourage borrowers to collect quantitative E&S data

Arcmont
ASSET MANAGEMENT

London
5 Hanover Square
London W1S 1HE
+44 (0)20 3761 0700
ESG@arcmont.com

arcmont.com

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