Arcmont
from nuveen

Task Force on Climate-Related Financial Disclosures

1st January 2023 to
31st December 2023

Contents

Compliance Statement

In support of the UK government's commitment to have economy-wide Task Force on Climate-Related Financial Disclosures (TCFD) reporting by 2025, the Financial Conduct Authority (FCA) has made TCFD reporting mandatory for certain asset managers under its Policy Statement (PS) 21/24. Arcmont Asset Management Limited ("Arcmont" or the "Firm") is required to publish its first TCFD entity report by 30 June 2024.

This TCFD entity report details how Arcmont takes climate-related matters into account in managing and administering investments on behalf of clients. Using Part 4 Section D of the TCFD Annex, titled "Asset Managers" as guidance, Arcmont has disclosed in alignment with five of the TCFD recommendations and partially in alignment with five others, whilst progressing towards future alignment with the remaining recommendations. This is further explained in Table 1. The table also includes details of Arcmont's plans to further align with the core recommendations in the year ahead. This inaugural TCFD entity report therefore details Arcmont's response to each of the recommendations and establishes the Firm's compliance with the FCA's PS21/24.

Nathan Brown
Chief Operating Officer

Introduction

Arcmont is pleased to present this inaugural TCFD entity report which provides transparency on the Firm's approach to identifying, assessing and managing climate-related risks and opportunities across the Arcmont Funds' investments, on behalf of clients. This report brings together relevant information on the formal processes that are embedded in Arcmont's Responsible Investment Policy and Climate Change Addendum (together the "ESG Policies") as well as other information sources. To demonstrate the Firm's commitment to making consistent improvements in managing climate-related risks and opportunities and progressing towards full alignment with the recommendations of the TCFD, Arcmont is committed to publishing an annual TCFD entity report going forward.

The content of this report is focused on providing transparent information to stakeholders and relevant regulatory bodies. Therefore, when reading this TCFD entity report, please note the following:

- Arcmont is portfolio manager to various Arcmont managed funds (the "Arcmont Funds").
- Arcmont leverages the UN Principles for Responsible Investment (PRI) definition of responsible investment which involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship)[1].
- Climate factors are specifically considered under the "E" pillar of "ESG" in Arcmont's Responsible Investment Framework. Therefore, when "ESG" or "Responsible Investment" are mentioned in this report, all pertinent climate-related matters are captured.
- The generally capped upside of Private Debt investments post-closing means Arcmont's focus is drawn to the potential downside risks that may lead to a default. This generally means that Arcmont prioritises ESG factors, including climate-related factors, that might be drivers of risk as opposed to sources of opportunity.
- As a lender to businesses as opposed to an owner, Arcmont has more limited control over portfolio companies. To overcome this, sustainability-linked margin ratchets are offered to certain borrowers. These are provisions that tie the rate of interest a borrower pays to pre-agreed key performance indicators (KPIs) and sustainability performance targets (SPTs). Although these are voluntary initiatives and borrowers elect to participate, they enable Arcmont to exert influence and encourage borrowers to improve their sustainability performance. Please refer to page 41 for further information on Arcmont's sustainability-linked margin ratchet programme.

[1] UN PRI: What is Responsible Investment?

Spotlight on Arcmont’s work in 2023

Table 1: Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Governance			
a) Describe the Board’s oversight of climate-related risks and opportunities. (page 15)	· The Arcmont Board of Directors (the “Board”) has ultimate oversight of climate-related risks and opportunities. The Board is responsible for setting the strategic objectives of the Firm in relation to the Arcmont Funds, and ensuring that material factors, including climate-related factors, are included within these objectives and associated strategies. · The Board has delegated responsibility for ESG-related matters (in which climate-related factors are considered within the “E” pillar) to the ESG Committee and receives updates from the Committee during each quarterly board meeting. · Note that an Arcmont board member is the ESG Committee chairperson and is therefore kept well informed on a regular basis. · The ESG Committee has a broad remit to consider the Firm’s ESG strategy, planning and targets which includes climate-related matters. · The ESG Committee meets quarterly to review ESG-related performance and set any relevant objectives.		· Further enhance and formalise the flow of climate-related information at the Board level. For example, setting climate-related matters as a standing agenda item at each quarterly meeting. This will be an opportunity for the Board to closely monitor progress towards climate goals.

Fully aligned: Partially aligned: Pending:

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Governance			
	· The ESG Committee regularly evaluates the Firm's climate-related risk management approach, particularly at the investment level in relation to climate-related sustainability-linked margin ratchets. An internal sustainability-linked margin ratchet tracker was specifically developed to facilitate these reviews. The tracker records the details of sustainability-linked margin ratchets, specifically the status of implementation, construction of each (including KPIs and SPTs) as well as borrowers' performance against SPTs. The tracker is reviewed at every quarterly ESG Committee meeting, allowing the committee to monitor the progress that is being made in relation to relevant climate-related topics[2].		
b) Describe management's role in assessing and managing climate-related risks and opportunities. (page 19)	· Members of Arcmont's senior management team sit on the ESG Committee, which is comprised of the Chief Operating Officer (chair), Co-Chief Investment Officer, Head of Corporate Sustainability and Responsible Investing, Chief Compliance Officer and Head of Portfolio Monitoring.	Fully aligned	N/A

[2] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Fully aligned: Partially aligned: Pending:

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Governance			
	· The ESG Committee meets at least quarterly; however, is kept well informed on a regular basis by the Responsible Investing team. · There is an effective organisational structure in place to ensure that the Board is informed of climate-related risks and opportunities by the ESG Committee. · Further, Arcmont's Chief Operating Officer (ESG Committee chairperson) is a Board member. He therefore has direct insight into climate-related matters across the Firm. · The ESG Committee reviews ESG-related performance on a regular basis, at least quarterly. For example, as mentioned above, the committee reviews the sustainability-linked margin ratchet tracker at each quarterly meeting to monitor the progress that is being made[3].		
Strategy			
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. (page 25)	· In this report, Arcmont has identified the climate-related physical and transition risks that will have implications on the Firm's investment strategy over the near- and medium-term.	Fully aligned	N/A

[3] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Fully aligned: ✓ Partially aligned: ✓ Pending: ⏱

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Strategy			
	· At the investment level, Arcmont conducts an ESG materiality assessment on each prospective investment to identify financially material climate-related risks prior to investment. Post-investment, Arcmont actively monitors the risks identified and engages with portfolio companies on these issues, primarily through sustainability-linked margin ratchets, to encourage them to improve their risk management approach.		
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. (page 25)	· Climate-related risks are considered at every stage of the deal lifecycle, from sourcing through to post-investment monitoring and engagement, across all of Arcmont's strategies. · At the pre-investment stage, Arcmont first applies an ESG exclusions policy to limit the Firm's exposure to companies engaging in certain business activities that contribute extensively to climate change. Second, an ESG materiality assessment is performed where each prospective investment's exposure to and management of material climate risks is assessed.		· Enhance the pre-investment and post-investment ESG materiality assessments to better incorporate quantitative data, including GHG emissions, and benchmarks (leveraging ClarityAI). · Launch an Impact lending strategy that will invest across four primary Impact themes: Climate, Health, Education and Sustainable Economic Growth.

Fully aligned: Partially aligned: Pending:

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Strategy			
	· Post-investment, Arcmont actively monitors the material climate risks identified for each investment and engages with portfolio companies, primarily through sustainability-linked margin ratchets, to encourage them to improve their climate performance. Note Arcmont is specifically focused on encouraging borrowers to set and achieve science-based greenhouse gas (GHG) emissions reduction targets. · As a first step towards incorporating climate-related topics into Arcmont's financial planning and business strategy, the Firm has undertaken a qualitative climate scenario analysis (CSA) to assess the exposure of the Arcmont Funds' investments to climate-related risks and opportunities.		
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. (page 30)	· In 2023, Arcmont engaged an external consultant to support with conducting qualitative CSA on the Arcmont Funds' investments. This used a low-carbon scenario and a high-carbon scenario to understand and assess the extent to which climate-related risks will impact the companies that the Arcmont Funds invest in. · The full extent of the impact of this work on Arcmont's investment strategy has yet to be fully realised and the Firm intends it to be fully incorporated in 2024.	Partially aligned	· Roll out enhancements to the Firm's existing approach leveraging the results of the qualitative CSA. · Further analysis to be carried out on the most material risks identified across the Arcmont Funds' investments. The intention is for this to be supplemented by quantitative CSA where possible.

Fully aligned: Partially aligned: Pending:

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Risk Management			
a) Describe the organisation's processes for identifying and assessing climate-related risks. (page 39)	· At the investment level, climate-related risks are identified and assessed through a strong pre-investment process which includes an ESG materiality assessment resulting in an ESG Risk Score. · Post-investment, these risks are closely monitored throughout the holding period and a formal quarterly review takes place for every portfolio company. Here, every portfolio company is reviewed for changing materiality in climate risks, as well as progress against an emissions reduction strategy or targets if set. · Arcmont also actively engages with certain primary borrowers to implement climate-focused sustainability-linked margin ratchets to encourage them to set and achieve science-based GHG emissions reduction targets[4]. · In order to be consistent across the organisation, this approach is applied across each product and investment strategy.	Partially aligned	· Expand on how climate-related issues are assessed for size and scope within the due diligence and ongoing monitoring processes.
b) Describe the organisation's processes for managing climate-related risks. (page 38)	· Pre-investment, Arcmont applies an ESG exclusions policy to limit the Firm's exposure to companies engaging in certain business activities that extensively contribute to climate change.	Fully aligned	N/A

[4] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Fully aligned: Partially aligned: Pending:

Spotlight on Arcmont’s work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Risk Management			
	· Arcmont also applies an ESG Risk Score threshold prohibiting investments in companies that are materially exposed to ESG risks but do not sufficiently manage them. If a company is highly exposed to climate risks and the risks are not sufficiently managed, it will be reflected in the score. · As part of the ongoing management of climate-related risks, Arcmont offers certain borrowers climate-focused sustainability-linked margin ratchets[5]. As climate change is a systemic issue Arcmont believes GHG emissions are relevant, core and material to every company. With increasing climate-related regulations coming into force, appropriately managing and reducing emissions is of high strategic significance to every company's current and future operations. Arcmont therefore endeavours to include at least one climate-related KPI in every ratchet.		
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management. (page 38)	· The formal process for identifying, assessing and managing climate-related risks at the product level is documented within the Climate Change Addendum to Arcmont’s Responsible Investment Policy.	Fully aligned	N/A

[5] Please refer to page 41 for further details on Arcmont’s sustainability-linked margin ratchet programme.

Fully aligned: ✓ Partially aligned: ✓ Pending: ⏱

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Risk Management			
	· The results of the ESG materiality assessment and the ESG Risk Score are considered by the Investment Committee and the Deal Approval Committee prior to making their respective investment decisions. · Arcmont produces product-level quarterly ESG reports. These reports are reviewed by Arcmont's Responsible Investing team as part of ongoing monitoring efforts to identify and assess climate-related risks. The Responsible Investing team will raise any material issues identified to the ESG Committee.		
Metrics & Targets			
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. (page 46)	· This report includes the metrics Arcmont has defined to measure and assess climate-related risks and opportunities across the Arcmont Funds' investments. · Note that the primary asset class the Arcmont Funds invest in is Private Debt. · At present, internal remuneration policies are not linked to climate-related KPIs. · Climate-related issues are incorporated within the Firm's Responsible Investment Framework.		· To improve the provision of appropriate climate-related metrics, Arcmont will explore the options for assigning the Arcmont Funds with a temperature alignment rating.

Fully aligned: Partially aligned: Pending:

Spotlight on Arcmont's work in 2023

TCFD Recommendations	Summary of disclosures	2023 Status	2024 Objectives
Metrics & Targets			
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks. (page 47)	· This report contains the Scope 1, Scope 2 and Scope 3 GHG emissions associated with the Arcmont Funds' investments and the Firm. · Arcmont has also provided additional related metrics including the fund Weighted Average Carbon Intensity (WACI) and other relevant emissions intensity ratios.		· Arcmont intends to enhance climate data collection to improve emissions calculations, initially through issuing a portfolio company ESG Questionnaire.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. (page 46)	· Arcmont has not yet set fund-level Net Zero targets. Until the Institutional Investors Group on Climate Change (IIGCC) published its Net Zero Investment Framework for the Private Debt Industry in 2024, which Arcmont contributed to, there was limited Private Debt-specific Net Zero guidance available. · Arcmont intends to use the Private Debt Net Zero guidance from the IIGCC once finalised to progress in setting Net Zero targets at the product level. · The IIGCC's guidance establishes an industry-wide approach for measuring progress towards Net Zero targets and aims to ensure that asset owners and asset managers align their portfolios with Net Zero emissions by 2050, if not before. The guidance also provides ways of standardising target-setting and provides an overview of the various target types that could be adopted.		· Arcmont intends to work towards setting fund-level Net Zero targets. · Climate-related metrics and targets will be considered across Arcmont's operations and the Arcmont Funds' investments. This will include discussions around setting a Net Zero target and developing an appropriate emissions reduction roadmap against which future emissions reductions can be assessed.

Fully aligned: Partially aligned: Pending:

Governance

Governance

Board oversight of climate-related risks and opportunities

Arcmont Board of Directors

The Board has ultimate oversight of climate-related matters and is responsible for strategic business decisions. The Board has delegated responsibility for ESG-related matters (in which climate-related factors are considered within the “E” pillar) to the ESG Committee and receives updates from the Committee during each quarterly board meeting. The updates comprise an overview of Arcmont’s climate-related engagements with portfolio companies, a review of the sustainability-linked margin ratchet tracker[6], and developments pertaining to the organisation’s compliance with climate-related obligations, including the FCA’s PS21/24. In progressing the importance of climate-related issues at the Board-level, Arcmont plans to introduce climate as a standing agenda item for the Board to discuss at every quarterly meeting.

ESG Committee

The ESG Committee (the “Committee”) is ultimately responsible for ensuring the Firm’s corporate operations and investment practices are performed in a responsible manner and are supportive of sustainability outcomes. This includes ensuring climate-related risks are effectively managed in the investment process. Members of the senior management team sit on the ESG Committee, which is comprised of the Chief Operating Officer (chair), Co-Chief Investment Officer, Head of Corporate Sustainability and Responsible Investing, Chief Compliance Officer and Head of Portfolio Monitoring. These individuals were purposely selected as they sit on central decision-making committees and span across various teams. This ensures that ESG matters, including climate matters, are considered at critical operational and investment decision points, and the importance of investing and operating responsibly is communicated across the Firm.

[6] Please refer to page 41 for further details on Arcmont’s sustainability-linked margin ratchet programme.

Governance

Table 2: Arcmont's committees and their responsibilities

Arcmont Committee	ESG Committee Member	Principal Role/Function of Committee
Deal Approval Committee	· Chief Operating Officer · Chief Compliance Officer	Reviews all investments and divestments, restructuring, board appointments and co-investments.
Senior Loan Investment Committee	· Co-Chief Investment Officer	Determines the investments and divestments which should be made by Arcmont's Senior Loan vehicles.
Direct Lending Investment Committee	· Co-Chief Investment Officer	Determines the investments and divestments which should be made by Arcmont's Direct Lending vehicles.
Portfolio Management Committee	· Co-Chief Investment Officer *Note that Arcmont's Chief Operating Officer & Chief Compliance Officer attend every meeting as observers*	Carries out periodic reviews of the entire fund portfolio to monitor credit quality, diversification, current yield dynamics and downside protection.
Portfolio Monitoring Committee	· Chief Operating Officer · Chief Compliance Officer · Head of Portfolio Monitoring	Agrees the investments that should be on the Watch List following the quarterly Portfolio Management Committee[7] meetings.

The Committee has a broad remit to shape the Firm's ESG strategy and objectives and will make recommendations to the Board on climate issues. For example, the Committee recently recommended the Firm onboards a climate consultant to help the organisation formulate a plan to reach Net Zero. The Committee's core responsibilities are listed below. Note that climate is specifically considered under the "E" pillar of ESG and Arcmont's sustainability-linked margin ratchet programme[8] (the Firm's primary engagement/stewardship tool) is climate-focused.

[7] The Portfolio Management Committee carries out periodic reviews of the entire fund portfolio to monitor credit quality, diversification, current yield dynamics and downside protection. The committee is comprised of the Direct Lending and Senior Loan Investment Committees, Co-Heads of the Capital Solutions Strategy and the Chief Operating Officer. Arcmont's Chief Compliance Officer attends as an observer.

[8] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Governance

- Oversight of ESG integration and stewardship strategies and programmes;
- Ensuring appropriate resources are available to execute effective ESG-integration and stewardship activities;
- Reviewing and updating (as appropriate) Arcmont's ESG Policies;
- Determining the frequency and scope of all responsible investment training;
- Ensuring compliance with applicable sustainability-related legislation, including the EU's Sustainable Finance Disclosure Regulation (SFDR);
- Ensuring the company complies with its obligations and commitments as a signatory to sustainability-related memberships;
- Overseeing the role of Arcmont's external ESG consultants and other ESG service providers;
- Reviewing and approving proposed sustainability-linked margin ratchets[9] and tailored ESG engagement plans with respect to Arcmont investments; and
- Monitoring progress against ESG targets, including developing climate-related targets.

The ESG Committee is also able to commission top-down portfolio reviews. In 2023, the Committee made the decision to engage an external consultant, EcoAct, to help the Firm perform CSA to enhance Arcmont's understanding of the scope and materiality of climate-related risks amongst investments, and the impact these risks might have on the Firm's business model and strategy. Further details can be found in the Strategy section of this report.

The Committee meets every quarter to review ESG-related performance and set objectives, with ESG data and information presented by the Responsible Investing team. The Committee also regularly evaluates the Firm's climate-related risk management approach, particularly at the investment level. For example, every quarter the Committee specifically reviews the sustainability-linked margin ratchet tracker which summarises the details of every climate-focused sustainability-linked margin ratchet across the Arcmont Funds' investments[9]. The Committee discusses uptake and the progress of participating borrowers, including appropriate actions to be taken should there be a material divergence from expected performance.

Training and Capacity Building

The Investment team, Responsible Investing team and ESG Committee receive regular ESG training to ensure they have the relevant skills and knowledge to effectively execute their responsibilities. This includes guidance on how the Responsible Investment Policy, Climate Change Addendum and other ESG-related measures are to be used to assess and manage climate-related risks and opportunities across the Arcmont Funds' investments.

Alongside this, Arcmont has issued training to communicate the importance of preventing greenwashing, and the SFDR in the EU. An overview of the training provided, including the provider, duration and attendees, is included in Table 3 below. Regular training will continue into the next financial year.

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[9] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Table 3: Company-wide training and capacity building

Subject	Provider	Attendees	Details
SFDR training	· Head of Corporate Sustainability and Responsible Investing · Chief Compliance Officer	· Investment team	A 30-minute session covering: · SFDR Article 8 criteria · SFDR Article 8 reporting requirements · Arcmont's Good Governance Criteria · The enhancements made to Arcmont's sustainability-linked margin ratchet programme, specifically the refocus to climate[10].
Anti-Greenwashing	· External Legal Counsel	· Investment team · ESG Committee · Client Services team · Business Development team	A 60-minute session covering the definition of greenwashing, related regulations in the UK, EU and US, case studies and appropriate risk mitigation measures. This covered the UK Streamlined Energy Carbon Reporting (SECR) and Sustainability Disclosure Requirements (SDR) as well as the EU Corporate Sustainability Reporting Directive (CSRD).
TCFD	· EcoAct	· ESG Committee	A 90-minute session covering the TCFD requirements and the results of Arcmont's qualitative CSA.
Certificate in ESG investing	· Chartered Financial Analyst (CFA) Institute	· Responsible Investing Analyst (obtained)	100+ hour course focused on identifying and incorporating ESG factors in investment decision making.

[10] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

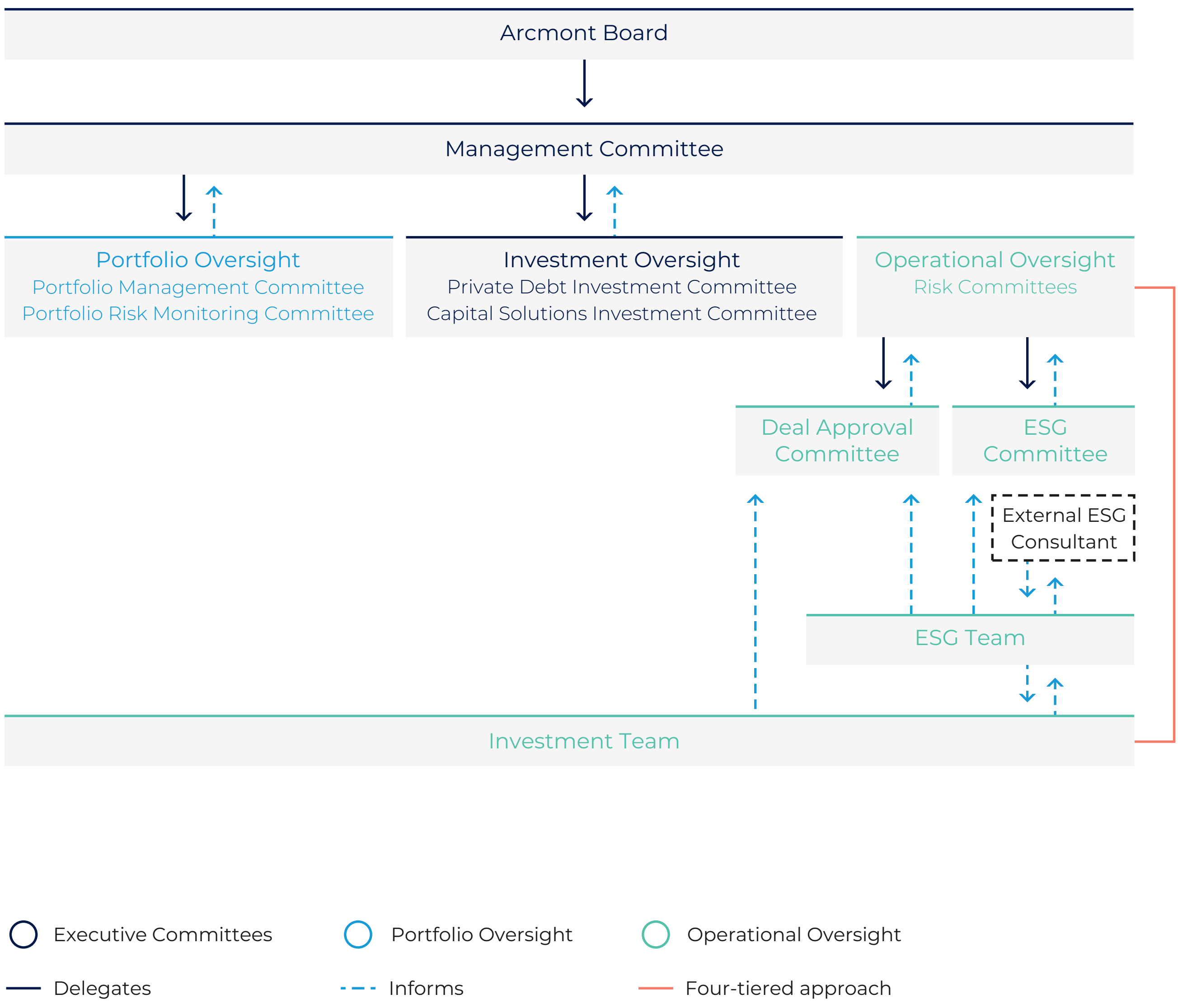
Governance

Role of management

Firm management activities

Arcmont has established a governance structure to ensure effective oversight of climate risks and opportunities across the Firm's operations and the investment lifecycle, with responsibilities diffused across different committees and teams across the Firm. Figure 1 below illustrates the organisational structure for the management of climate-related risks and opportunities across Arcmont's operations and the Arcmont Funds' investments.

Figure 1: Arcmont's ESG risk governance framework



Investment management activities

The organogram above shows the organisational structure for the management of climate-related risks across the investment lifecycle specifically. Further information on each group's climate responsibilities is provided below in Table 4.

Table 4: Climate-related responsibilities for relevant committees and groups at Arcmont

Committee/Group name	Climate-related responsibilities
Investment team	Responsible for applying Arcmont's ESG Policies and incorporating ESG factors throughout the deal lifecycle. Each deal team is specifically required to consider climate risks as part of ESG analysis and offer every eligible primary borrower a climate-focused sustainability-linked margin ratchet[11].
Responsible Investing team	Responsible for ensuring the Investment team execute their ESG responsibilities in an effective manner (i.e. appropriately consider climate risks when performing their ESG analysis) and for driving climate-focused engagement activities. The team's responsibilities include: · Keeping the ESG committee well informed on a regular basis and presenting information to the Committee at the quarterly meetings. · Ensuring climate KPIs and SPTs are material and ambitious when sustainability-linked margin ratchets are being negotiated[11]. · Liaising with dss+ (see further information below) to identify ESG knowledge gaps across the Firm, with a specific focus on the Investment team, and proposing targeted training sessions to the ESG Committee to consider.
dss+ (External ESG Consultant)	Provides Arcmont with specialist input and expertise, and independently reviews all the ESG analysis conducted by the Investment team, both at the pre-investment stage and every quarter post-investment. dss+ specifically ensures climate risks have been appropriately considered and sources data from external resources to deepen the Investment team's analysis.

[11] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Governance

Committee/Group name	Climate-related responsibilities
ESG Committee	Responsible for ensuring the implementation of Arcmont's ESG Policies. As mentioned above, the Committee specifically reviews the sustainability-linked margin ratchet tracker which summarises the details of every climate-focused sustainability-linked margin ratchet[12].
Investment Committees	Determine the investments and divestments which should be made by the Arcmont vehicles. An assessment of climate-related risk is included in all Final Investment Memorandums (FIMs) which are considered by the relevant investment committee prior to making investment decisions. Note that the ESG Committee's view is factored into investment decisions where climate-related issues are highly material.
Deal Approval Committee	Reviews all investments and divestments, restructuring, board appointments and co-investments and reviews. The committee members review the FIM ESG analysis when making their decisions and a member of the Responsible Investing team is required to sign off on every investment from an ESG perspective as part of the Deal Approval Committee approval process.
Portfolio Monitoring Committee	Reviews all investments and divestments, restructuring, board appointments and co-investments and reviews and approves the Allocation Policy. ESG factors, including climate factors, may form part of the committee's decisions.
Portfolio Management Committee	Carries out periodic reviews of the entire fund portfolio to monitor credit quality, diversification, current yield dynamics and downside protection. ESG factors, including climate factors, may form part of the committee's decisions.

[12] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Governance

Engagement with external organisations and industry initiatives

Arcmont and its employees engage with several external organisations and industry initiatives to enhance the Firm's approach to climate-related risks and their management. Arcmont is committed to working with others to promote the transition to a low-carbon economy. The details of these engagements are provided in Table 5 below.

Table 5: External organisations / industry initiatives

External organisation / industry initiative	Details	Relevance to climate-related activities
dss+	dss+ is a leading provider of operations management consulting services with a focus on sustainability. The team of experts in ESG and Sustainable Finance is dedicated to providing tailored solutions to effectively integrate ESG and impact considerations into the investment process. The dss+ team specialises in strategy and research, empowering their clients to create long-term value through the integrated management of economic, environmental, social and governance factors.	dss+ assists Arcmont with the development and execution of the Firm's sustainability strategy, particularly in relation to responsible investment. Collaboratively, dss+ ensures Arcmont is aware of industry best practices and provides the firm with specific subject-matter expertise. Additionally, dss+ serves as an independent layer of oversight, underpinning the integrity and thoroughness of Arcmont's responsible investment commitment. Their team independently reviews all the responsible investment endeavours undertaken by the Investment team. This review occurs both during the pre-investment phase and on a quarterly basis post-investment, assuring continuous alignment with Arcmont's responsible investment goals.
EcoAct	An international climate consultancy and project developer, supporting businesses and financial institutions across all aspects of their Net-Zero transformation.	Supports Arcmont with: i. Measuring the Firm's corporate GHG emissions; ii. Developing a GHG emissions reduction road map; iii. Preparing an inaugural FY2023 TCFD report; and iv. Conducting CSA on the Arcmont Funds' investments.

Governance

External organisation / industry initiative	Details	Relevance to climate-related activities
UN PRI	The UN PRI were developed by an international group of institutional investors to reflect the increasing relevance of ESG issues to investment practices. Becoming a signatory means that investors publicly commit to adopting and implementing the six principles (see right).	Arcmont became a signatory of the UN PRI in December 2019, continuing the affiliation that began in July 2013 while part of BlueBay Asset Management. As a PRI signatory, Arcmont is committed to the following six principles: 1. Incorporating ESG issues (including climate issues) into investment analysis and decision-making processes; 2. Being an active owner and incorporating ESG issues (including climate issues) into ownership policies and practices; 3. Seeking appropriate disclosure on ESG issues (including climate issues) by investee companies; 4. Promoting acceptance and implementation of the principles within the investment industry; 5. Working together to enhance effectiveness in implementing the principles; and 6. Reporting on activities and progress towards implementing the principles.
The IIGCC Private Debt Focus Group	The work of the IIGCC aims to support investors in generating returns for their clients and beneficiaries, whilst aiming to provide sustainable and financial wellbeing for future generations[13]. The objective of the Private Debt focus group was to steer and contribute to the development of a Net Zero Investment Framework for Private Debt.	The first draft of the IIGCC's Net Zero Investment Framework component for Private Debt has now been published. The guidance establishes an industry-wide approach for measuring progress towards Net Zero and provides a consistent foundation for Private Debt asset owners and managers to align their portfolios with Net Zero by 2050 (or before).

[13] IIGCC: About us

Strategy

Strategy

Arcmont recognises that climate-related risks and opportunities have implications for the Firm's investment strategy over the near-term (up to 2030) and medium-term (2030-2050). To account for this, Arcmont has established a robust ESG-integrated investment process and has implemented a climate-focused sustainability-linked margin ratchet programme[14]. Due to these efforts, climate-related risks and opportunities are considered at every stage of the deal lifecycle and all the Arcmont funds that are currently investing promote climate change mitigation. Further information on Arcmont's ESG-integrated investment process is provided in detail in the Risk Management section of this report (page 37), as well as in the ESG Policies.

Arcmont implements ESG factors into the investment process with two key objectives:

1. To identify ESG risks and opportunities to enhance investment decision-making[15], including climate-related risks and opportunities; and

2. To encourage portfolio companies to improve their ESG performance, with a particular focus on climate performance.

Arcmont also recognises that approaches for identifying, assessing and managing climate-related issues are evolving and is committed to staying well informed and adopting what are widely considered to be industry best practices. As an example, the climate issues in Arcmont's "Universe of ESG Issues" tool were revised during the year (please refer to page 39 for further details on the tool) to deepen the Firm's analysis of climate-related risks. The ESG Committee also made the decision to add an "ESG Appendix" to the FIM template at the recommendation of the Responsible Investing team. Now the Investment team is required to evidence that they have considered all the ESG factors listed within the "Universe of ESG Issues" for every prospective investment.

Considering climate-related risks and opportunities across the investment lifecycle

Table 6 provides an overview of how climate-related factors are considered at each stage of Arcmont's responsible investment process.

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[14] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

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

Strategy

Table 6: Responsible Investment Framework – Climate spotlight

Investment Process Stage	Overview of Responsible Investment Process	Climate Spotlight	More Information
1 | Negative Screening	Every investment is screened against the relevant ESG exclusions policy.	Arcmont seeks to avoid investments that significantly contribute to climate change, specifically prohibiting investment in companies engaged in certain heavy emitting activities i.e. thermal coal and oil/tar sands as well as those that violate the UN Global Compact (UNGC) principles, three of which relate to environmental protection.	Page 38
2 | ESG Due Diligence	Every investment undergoes a comprehensive ESG materiality assessment and is assigned an ESG Risk Score. This is performed by the deal team, leveraging Arcmont's proprietary ESG Appendix Generator, and is independently reviewed by dss+ prior to being finalised and included in the FIM.	· ESG Materiality Assessment: (a) ESG Appendix Generator uses SASB's Climate Risk Technical Bulletin as a source. (b) 'Climate Risk (Physical)', 'Climate Risk (Regulatory inc. GHG)', 'Climate Risk (Transitional)' are specific factors in Arcmont's Universe of ESG Issues tool. (c) 'Climate Risk (Regulatory inc. GHG)' is required to be assessed in detail for every portfolio company. · ESG Risk Score: If a company is highly exposed to climate risks and those risks are not sufficiently managed, it will be reflected in the score. Note that Arcmont applies a scoring threshold.	Page 39

Strategy

Investment Process Stage	Overview of Responsible Investment Process	Climate Spotlight	More Information
		· More recently, Arcmont undertook a qualitative CSA with an external consultant, EcoAct. This complements the analysis of climate risks and opportunities carried out at the due diligence stage and the results will be used to enhance the Firm's pre-investment due diligence on climate matters.	
3 | Final Investment Decision	The relevant investment committee considers the ESG information before making an investment decision.	If climate risk is deemed to be material, it will be highlighted to the committee in the FIM.	Page 41
4 | Deal Approval Committee	The Deal Approval Committee considers the ESG information before making an investment decision. A member of Arcmont's Responsible Investing team is required to sign off on every deal from an ESG perspective.	If climate risk is deemed to be material, it will be highlighted to the Deal Approval Committee in the FIM.	Page 41
5 | Engagement (Stewardship)	Arcmont offers a sustainability-linked margin ratchet to every (i) new primary borrower since April 2021 and (ii) existing primary borrower who is provided additional financing after April 2021[16].	In July 2022, in support of the transition to a Net Zero economy, the programme was revised to specifically target borrowers' climate change mitigation practices. Arcmont now endeavours to include a climate related KPI in every ratchet and has a specific	Page 41

[16] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Strategy

Investment Process Stage	Overview of Responsible Investment Process	Climate Spotlight	More Information
		focus on encouraging borrowers to set and achieve science-based targets.	
6 | Monitoring	A formal review takes place on a quarterly basis where the deal teams raise the material ESG risks identified with management teams, asking for relevant updates as well as an update on general ESG performance and objectives. Based on the monitoring updates, the ESG Risk Score of every portfolio company is reviewed and updated where necessary. For portfolio companies with sustainability-linked margin ratchets, or with tailored ESG engagement plans, milestone updates are required to ensure the company is on track to meet the SPTs set[17].	Climate risks are monitored as part of Arcmont's standard ESG monitoring process. If climate-related data is available, the deal team will collect it and monitor the company's performance over time. If performance does not improve, the deal team will engage with the company to determine the reason why. This is particularly relevant for GHG emissions performance data. Further, if a company has a GHG reduction strategy or has set a Net Zero target, the deal team will monitor the company's progress towards meeting any targets set.	Page 44
7 | Reporting	Arcmont produces quarterly ESG reports for all funds it acts as portfolio manager to which contain information on Arcmont's approach to responsible investment, details of any material ESG events, if any, and a summary of the ESG characteristics of the fund.	Arcmont discloses information on each portfolio company's exposure to and management of material climate risks, including performance data, where it is available. Arcmont also provides investors with product-level ESG data reports on request which contain GHG emissions data for every portfolio company.	Page 44

[17] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Strategy

Investment Process Stage	Overview of Responsible Investment Process	Climate Spotlight	More Information
	The reports also include each portfolio company's ESG Risk Score, updates on the material ESG risks identified, details of engagement efforts, as well as alignment to the Sustainable Development Goals (SDGs) if applicable.		

Strategy

Climate Scenario Analysis on the Arcmont Funds' Investments

In 2023, Arcmont undertook qualitative Climate Scenario Analysis (CSA) on the Arcmont Funds' investments with the support of EcoAct. This analysis serves as a first step in understanding the impacts of climate-related risks and opportunities on the companies the Arcmont Funds invest in. It also serves as a starting point for quantifying climate risks and developing risk reduction actions where needed.

As this was the first time CSA was conducted on the Arcmont Funds' investments, the results have yet to be fully realised and integrated into the Firm's investment and risk decision making processes. This is an objective for 2024.

As part of the CSA work, Arcmont and EcoAct carried out desk-based research and workshops with internal stakeholders from across key business functions, including compliance, portfolio management and investment representatives. The participants included Arcmont's Chief Operating Officer, Head of Corporate Sustainability and Responsible Investing, Chief Compliance Officer, Co-Chief Investment Officer, Head of Portfolio Monitoring, Compliance Associate and Responsible Investing Analyst. This helped to ensure that all aspects of the Firm were considered and that all relevant climate-related risks were identified.

The desk-based research included a review of climate science publications by international organisations, such as the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA). The review also incorporated sector- and industry-specific climate-related publications. Based on the various global climate scenarios developed by these organisations, two scenarios were defined for this assessment. These scenarios sit at opposite ends of the plausible future pathways, giving us an understanding of a wide range of potential climate-related risks and opportunities.

The following two scenarios were assessed:

- **Low-carbon scenario:** this scenario represents 'Net Zero by 2050' and assumes that the goals of the Paris Agreement are achieved, namely that global temperature rise is limited to 1.5°C above pre-industrial levels. In this scenario, the most likely risks are those associated with the transition to a lower-carbon economy (for example, higher emission costs and more stringent regulation), while physical risks will be lower than in a high-carbon scenario.

- **High-carbon scenario:** this 'business-as-usual' scenario assumes that climate policies and other actions taken are insufficient to achieve the goals of the Paris Agreement and the transition to a low-carbon economy. Therefore, it is anticipated that under this scenario global temperatures will rise to 3°C or higher above pre-industrial levels. In this scenario, more severe physical risks can be expected.

Strategy

To identify and qualitatively assess climate-related risks, Arcmont and EcoAct considered two main time horizons: (i) near-term which covers from now and up to 2030; and (ii) medium-term which covers 2030 to 2050. These time horizons align with national climate targets (for example, the UK's commitment to Net Zero by 2050), and, as far as practical, with the time frames used in relevant climate science publications. The near-term period broadly aligns with the length of individual investments (c. 3 – 4 years), whereas the period up to 2050 provides a wider overview of the potential climate impacts and aligns with national and international climate target dates.

Arcmont and EcoAct undertook the CSA in two stages. First, an initial review of the climate-related risks at the industry level was performed, with the aim to identify which industries in the portfolio are most exposed to climate-related risks. Based on this initial review, five priority industries were selected for a more detailed risk analysis, using company-specific information where appropriate. Note that the five priority industries were selected in consultation with key internal stakeholders during a workshop session and are considered to be representative of the industries with a higher weighting across the Arcmont Funds' investments that are most exposed to climate-related risks.

For the second stage of the CSA project, both physical and transition risks were identified and assessed for each scenario and time horizon. These risks were subsequently prioritised using a combination of likelihood and impact to give an overall risk score and assess materiality. Likelihood is defined as the possibility that a climate-related event will occur in each climate scenario and time horizon (for example, an extreme weather event causing damage or a new regulation), and impact is defined as the extent to which a risk might affect an industry or portfolio company. This will depend on how prepared the industry or the portfolio company is to respond to the climate driver. The same approach was also used to qualitatively assess the climate-related risks affecting Arcmont's own operations.

The most material risks to Arcmont's own operations and the Arcmont Funds' investments are set out in Table 7 below. It should be noted that Arcmont and EcoAct also identified a set of less material risks which will be reassessed regularly as part of Arcmont's overall risk management process.

In addition to risk, climate change might lead to opportunities for the Firm and portfolio companies. However, due to the generally capped upside of Private Debt investments post-closing, Arcmont's focus is drawn to the potential downside risks that may lead to a default. This generally means that Arcmont prioritises ESG factors that might be drivers of risk, as opposed to sources of opportunity. Therefore, Arcmont did not assess the magnitude of potential opportunities as part of the initial CSA.

Strategy

Table 7: Identified Climate Risks

Risk description	Risk category	Risk description	Climate scenario and time horizon[18]	Potential impact on portfolio companies and mitigation measures in place
The Arcmont Funds' investments				
Physical	Acute physical risks	Increase in the severity and frequency of extreme weather events. For the Arcmont Funds' investments, based on the relevant location of companies and industry type, flooding, heatwaves and storms are the most critical acute physical risks.	Medium term and high-carbon scenario	· Extreme weather events might cause damage to buildings, equipment and workforce. These events can directly impact operations and the supply chain and indirectly impact operations through the supply chain. Main expected impacts are (i) increased capital expenditure caused by damage to buildings, equipment and workforce, (ii) reduced revenue due to delays in operations and supply chains and (iii) higher insurance premiums. · Following the initial CSA, there are plans to address this risk by encouraging and monitoring action from portfolio companies both through Arcmont's sustainability-linked margin ratchet programme[19] and as part of the formal ESG reviews during the holding period. In addition, Arcmont intends to enhance analysis of exposure to these risks.
Transition	Regulation	Increase in reporting and regulatory requirements and stakeholder concern / requirements.	Short and medium term and low carbon scenario	· Most companies in the portfolio will face increasing reporting obligations which could lead to an increase in operating costs due to higher compliance costs.

[18] Most likely scenario/time horizon of risk materialising. However, it should be noted that risks may be experienced across different scenarios and time horizons.

[19] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.

Strategy

Risk description	Risk category	Risk description	Climate scenario and time horizon[20]	Potential impact on portfolio companies and mitigation measures in place
The Arcmont Funds' investments				
Transition	Regulation	Increased scrutiny over environmental topics related to climate (e.g. circular economy, water and waste management).	Short and medium term and low-carbon scenario	· Not meeting regulatory and/ or stakeholder requirements might lead to a reduction in capital availability and costs resulting from fines and litigation. · Alongside the expected increase in scrutiny on climate action, companies will be required to act and report on their progress on sustainability topics. This can lead to an increase in operating costs, a reduction in capital availability and possible costs from fines and litigation. · These impacts might be significant for companies in the Arcmont Funds that have large product manufacturing activities, such as companies within the consumer durables and materials sectors. · Where available, Arcmont collects GHG emissions data.
	Policy and Legal	Carbon prices	Short and medium term and low-carbon scenario	· Carbon prices imposed on certain goods and services activities will increase the cost of raw materials, electricity, transportation and waste management.

[20] Most likely scenario/time horizon of risk materialising. However, it should be noted that risks may be experienced across different scenarios and time horizons.

Strategy

Risk description	Risk category	Risk description	Climate scenario and time horizon[21]	Potential impact on portfolio companies and mitigation measures in place
The Arcmont funds' investments				
Transition	Policy and Legal	Carbon prices	Short and medium term and low-carbon scenario	· Carbon prices might be direct in relation to companies' direct operations or be passed through from their suppliers. This leads to an increase in operating and production costs. · Should carbon prices be deemed a material issue for a portfolio company, Arcmont will qualitatively assess the potential impact of this risk as part of the pre-investment materiality assessment and post-investment monitoring efforts. · Where available, Arcmont collects GHG emissions data.
	Market	Energy costs and volatility in the market	Short term and low-carbon scenario	· Increased energy prices due to volatile energy supply as a result of the transition to clean energy may lead to increased operational and production costs. · Should energy prices be deemed a material issue for a portfolio company, Arcmont will qualitatively assess the potential impact of this risk as part of the pre-investment materiality assessment and post-investment monitoring efforts. · Where available, Arcmont collects energy consumption data.

[21] Most likely scenario/time horizon of risk materialising. However, it should be noted that risks may be experienced across different scenarios and time horizons.

Strategy

Risk description	Risk category	Risk description	Climate scenario and time horizon[22]	Potential impact on portfolio companies and mitigation measures in place
The Arcmont Funds' investments				
Transition	Reputation	Reputation impacts and reduced capital flows into companies not taking climate action, greenwashing and/or failing to meet climate targets	Medium term and low-carbon scenario	· In the medium term, companies are exposed to reputational damage if they provide services and/or products which do not contribute to the transition to a low-carbon economy or actively work against this. · If these companies have made commitments or have targets in place, this could lead to accusations of greenwashing. · The potential impacts are expected to be (i) reduced revenue from decreased demand for goods/services, (ii) reduction in capital availability and (iii) reduced revenue from negative impacts on workforce management and planning. · 'Climate Risk (Transitional)' is a specific issue in Arcmont's Universe of ESG Issues tool and is systematically assessed as part of the pre- and post-investment ESG materiality assessments.
Arcmont's operations				
Transition	Regulation	Increase in reporting and regulatory requirements and stakeholder concern/requirements	Short and medium term and low-carbon scenario	· Regulatory-related risk is the most relevant risk to Arcmont's own operations. This could lead to an increase in operating costs through higher compliance costs. Further, failing to meet regulatory and/or stakeholder requirements could lead to a reduction in capital availability.

[22] Most likely scenario/time horizon of risk materialising. However, it should be noted that risks may be experienced across different scenarios and time horizons.

Strategy

Risk description	Risk category	Risk description	Climate scenario and time horizon[23]	Potential impact on portfolio companies and mitigation measures in place
Arcmont's operations				
Transition	Regula-tion	Increase in reporting and regulatory require-ments and stakeholder concern/requirements	Short and medium term and low-carbon scenario	• Arcmont is mitigating this risk by regularly reviewing existing and emerging regulations and ensuring the right processes are in place to respond in an effective and efficient manner. Arcmont also provides relevant training to relevant employees on incoming regulations, which should ensure preparedness across the organisation.

The CSA work undertaken this year represents a first step in assessing the exposure of the Arcmont Funds' investments to climate-related risks and opportunities. Looking forward, Arcmont plans to build upon this qualitative CSA to further understand how climate-related risks and opportunities might impact the Firm's climate strategy and investment strategy and further assess the resilience of portfolio companies to climate change.

Climate Transition Plan

Arcmont has not yet defined and disclosed a climate transition plan. Following the development of appropriate GHG emissions reduction commitments, Arcmont will use these targets and the outputs of the qualitative CSA work to inform the development of an appropriate action plan for transitioning to a low-carbon economy.

[23] Most likely scenario/time horizon of risk materialising. However, it should be noted that risks may be experienced across different scenarios and time horizons.

Risk Management

Risk Management

Integrating Climate Considerations into the Investment Process and Managing Climate-Related Risks

Climate change can affect the financial performance of companies over the near, medium and long term, and thus can impact portfolio companies' risk and return profiles. In recognition of this, climate-related factors are considered at every stage of the deal lifecycle as detailed on the following pages and in the Climate Change Addendum to Arcmont's Responsible Investment Policy.

1. Negative Screening

ESG Exclusions Policy

The first step in the investment process is to screen prospective opportunities against an ESG exclusions policy. Arcmont specifically seeks to avoid investments that contribute extensively to climate change, limiting the Firm's exposure to companies engaged in certain heavy emitting activities as well as those that violate the UNGC principles, three of which relate to environmental protection. Table 8 details Arcmont's Direct Lending climate-related exclusions.

Table 8: Direct Lending climate-related exclusions

Climate-Related Excluded Activity	Exclusion Type
Violation of UNGC Principles: #7: Businesses should support a precautionary approach to environmental challenges; #8: Undertake initiatives to promote greater environmental responsibility; and #9: Encourage the development and diffusion of environmentally friendly technologies.	Absolute exclusion
Thermal Coal	Revenue threshold – Greater than 5%
Oil/Tar Sands	Revenue threshold – Greater than 5%

Risk Management

RepRisk

At this stage, Arcmont also utilises RepRisk, a third-party research and business intelligence platform specialising in providing accurate and informed ESG data, to source additional information on ESG risk incidents and controversies. RepRisk specifically screens companies for 'climate change', 'GHG emissions' and 'global pollution'. This information is used to bolster Arcmont's pre-investment screening, ESG due diligence and ongoing climate risk monitoring efforts. For further information, please visit the RepRisk website.

2. Due Diligence

Arcmont's Universe of ESG Issues

In conjunction with subject matter experts, Arcmont created a tool titled "Arcmont's Universe of ESG Issues". The tool captures the most relevant and material ESG factors for the companies in Arcmont's investable universe and was built with reference to Sustainability Accounting Standards Board (SASB) Standard's issues categories, as well as other guidance materials. Please see the image below for a complete list of factors captured in the tool. All of these are systematically considered for every investment, as described below.

Climate Spotlight: Climate Factors in Arcmont's Universe of ESG Issues Tool

Environmental

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

Social

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

Governance

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

Risk Management

ESG Materiality Assessment and ESG Risk Score

Arcmont has developed a bespoke ESG Appendix Generator together with sustainability experts to identify and assess material ESG risks. The Appendix includes all the risks in Arcmont's Universe of ESG Issues tool.

a) Identifying Potential Material ESG Risks

By selecting an investment's industry classifications (i.e. MSCI's Global Industry Classification Standard (GICS) and SASB's Sustainable Industry Classification System (SICS)), the Generator will highlight potential material ESG risks leveraging MSCI and SASB materiality matrices, SASB's Climate Risk Technical Bulletin and Arcmont's bespoke GICS mapping tool as well as other sources.

Climate Spotlight: SASB Climate Risk Technical Bulletin

The SASB Climate Risk Technical Bulletin breaks down climate risks into three categories that can ultimately impact corporate financial performance: (1) physical effects, (2) transition to a low-carbon and resilient economy and (3) regulatory risk, and provides the climate risk categories that each SASB industry is impacted by. Where the Bulletin indicates that a company is potentially exposed to a specific climate risk category based on its SASB industry, the deal team is required to assess the company's exposure to and management of the climate risk.

Climate Spotlight: Mandatory Assessment of Specific Climate Factors

As Arcmont is acutely sensitive to climate change, the Appendix considers "Climate Risk (Regulatory inc. GHG)" and "Energy Management" to be material for every company regardless of its industry classification, thus mandating the deal team to assess each company's exposure to and management of each risk.

b) Assessing Material ESG Risks

Where an ESG risk is deemed to be material by the ESG Appendix Generator, corresponding questions are shown for the deal team to answer. The questions consider a company's business activities, geographic location and other pertinent factors that were determined Arcmont's ESG consultant. This helps the deal team determine whether the suggested issue is material for the business in question and ensures a systematic evaluation of ESG factors during due diligence.

Climate Spotlight: GHG Emissions Assessment

- When assessing a prospective investment's exposure to GHG emissions, factors such as scale and location of operations will be considered, as well as any existing or incoming climate-related regulations in the areas of operation.

- When assessing a prospective investment's management of GHG emissions, the deal team will look at whether the company is currently measuring, reporting and ultimately taking steps to reduce their GHG emissions and energy consumption. An assessment of whether the company has set a Net Zero target that is aligned with the latest climate science will also be considered.
- Where quantitative data is available, the deal team will collect and document it.

c) ESG Risk Score

Next, prospective investments receive a rating along each pillar of "E", "S" and "G", according to their potential negative financial impact on the investment. These are then aggregated to form an overall ESG Risk Score. The score ranges from +6 (Very Low Risk) to -6 (Very High Risk) and quantifies the likelihood of a negative financial impact on the investment due to ESG risks. Arcmont has a policy to not invest in a company with a score of less than -3 (High Risk). If a company is highly exposed to climate risks and the risks are not sufficiently managed, it will be reflected in the score.

d) Independent review

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

3. Final Investment Decision

The relevant Investment Committee considers the information in the FIM, including material climate-related risks, when making an investment decision.

4. Deal Approval Committee

The Deal Approval Committee considers the information in the FIM, including material climate-related risks, when approving an investment.

5. Engagement (Stewardship)

Arcmont leverages the Investment Consultants Sustainability Working Group's (ICSWG) definition of engagement which is "purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). Regular communication to gain information as part of ongoing research should not be counted as engagement"[24].

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[24] ICSWG Engagement Reporting Guide

Using this definition, Arcmont primarily engages with borrowers via sustainability-linked margin ratchets i.e. provisions that tie the rate of interest a borrower pays to pre-agreed KPIs and SPTs.

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

Each ratchet is bespoke, with the number of KPIs and SPTs and size of the financial incentive varying per investment. However, in each case, to ensure the integrity of Arcmont's offering, the Firm follows the Loan Market Association's Sustainability-Linked Loan Principles (SLLPs) to the extent possible.

Climate Spotlight: Promoting Climate Change Mitigation

At the time of implementation in April 2021, Arcmont endeavoured to create a bespoke plan for every participating borrower, targeting a specific material environmental and/or social issue a borrower faced, based on the results of the pre-investment ESG due diligence. However, in July 2022, in support of the transition to a Net Zero economy, the programme was revised to specifically target borrowers' climate change mitigation practices. Arcmont now endeavours to include a climate-related KPI in every ratchet and has a specific focus on encouraging borrowers to set and achieve science-based GHG emissions reduction targets.

Note that the IIGCC recently endorsed sustainability-linked margin ratchets as a key tool for Private Debt managers to engage with portfolio companies on climate risk management and decarbonisation in its Net Zero Investment Framework for the Private Debt Industry.

Climate Case Studies: Promoting Climate Change Mitigation via Sustainability-Linked Margin Ratchets

As of 31 December 2023:

- 39% of eligible borrowers[25] have a commercially agreed or documented ratchet, representing €3.35 billion of committed capital[26].
- 83% of the documented ratchets have a climate change KPI, representing €3.25 billion of committed capital[26].
- 30% of borrowers[25] with a climate change KPI have met at least 1 target i.e. demonstrated and evidenced that they have taken action to improve their climate change mitigation efforts.

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[25] Based on number of issuers.

[26] Based on Cost Amount GIR EUR.

Risk Management

	Project Butterfly	Project Rousseau	Project Wolverine
Activity	Global retail brand	Early childhood education group	Online retailer of PC products
Investment Date	December 2021	December 2021	October 2021
Ratchet Date	August 2022	December 2022	June 2023
Status	Realised	Active	Active
KPI	Renewable energy ratio	GHG emissions intensity per child	GHG emissions intensity
Baseline Data	0% for FY21	0.173 tCO_2e/child for FY22	N/A
SPTs	SPT 1 = 25% FOR FY22 SPT 2 = 50% FOR FY23 SPT 3 = 75% FOR FY24	SPT 1 = 6.26% FOR FY23 SPT 2 = 6.26% FOR FY24 SPT 3 = 6.26% FOR FY25 Set using the SBTi Target Setting Tool	SPT 1 = FY22 baseline data collection SPT 2 = 5.25% reduction for FY23 SPT 3 = 5.25% reduction for FY24 Set using the SBTi Target Setting Tool
Incentive	Each SPT = 2.5 bps Maximum reduction = 7.5 bps		
Reporting	Annual verified performance data		
Verifiction	Energy Attribute Certificate	GHG Emissions Consultant	
Outcome	SPT 1 & 2 achieved 5 bps discount awarded	SPT 1 achieved 2.5 bps discount awarded	SPT 1 achieved 2.5 bps discount awarded

Risk Management

6. Monitoring

Arcmont maintains an open and active dialogue with the management teams of portfolio companies to closely monitor their ESG profiles. A formal quarterly review take place where the deal teams and portfolio companies' management teams discuss the material ESG risks, including material climate-related risks. If climate-related data is available, the deal team will collect it and monitor the company's performance over time. Further, if a company has a GHG emissions reduction strategy or has set a Net Zero target, the deal team will monitor the company's progress towards meeting any targets set. Based on these monitoring updates, the overall ESG Risk Score of every portfolio company is reviewed and updated when necessary. This is documented and then sent to Arcmont's ESG consultant to review before being finalised.

Portfolio companies with sustainability-linked margin ratchets are required to submit annual performance data. For the majority of ratchets, this includes verified GHG emissions data[27].

7. Reporting

Corporate Level

In addition to this TCFD entity-level report, Arcmont is committed to producing an annual corporate sustainability report detailing an update on the Firm's overall sustainability efforts for the year completed and objectives for the year ahead. Climate change has been identified as a material issue for the Firm and therefore is reported on in detail each year. Please find the latest report here.

Further, as a signatory of the UN PRI, Arcmont is required to submit an annual transparency report to the initiative which has specific climate change indicators that provide further insight into Arcmont's approach to the issue. The transparency reports are publicly available on the PRI website.

Product Level

Arcmont produces quarterly ESG reports for all products. The reports contain details on every portfolio company's material risk exposure and risk management practices[28]. This includes their exposure to and management of material climate risks, including "Climate Risk (Physical)", "Climate Risk (Transitional)", "Climate Risk (Regulatory inc. GHG)" and "Energy Management", as well as climate-related data, if available.

Arcmont also provides investors with ESG data reports for funds they are invested in. The reports cover a wide range of environmental and social metrics, including GHG emissions and energy consumption data.

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[27] Please refer to page 41 for further details on Arcmont's sustainability-linked margin ratchet programme.
[28] Subject to obligations of confidentiality under the relevant legal documents.

Metrics and Targets

Metrics and Targets

Metrics and targets are essential for measuring and managing climate-related risks and opportunities and monitoring progress against emissions reduction targets and roadmaps. Arcmont has not yet set specific targets for climate-related risks and opportunities or defined all relevant metrics. However, in 2024 Arcmont intends to explore setting climate-specific objectives and targets using the outputs of the qualitative CSA.

Investments

Due to data challenges, estimates have been used to calculate financed emissions. Since 2022, Arcmont has been estimating portfolio GHG emissions using ClarityAI. An overview of the Arcmont Funds' existing investments is included in Table 9 below. In addition to providing investors with fund-level and investment-level disclosures of GHG emissions when requested, Arcmont also provides investors with information on each portfolio company's exposure to and management of material climate-related risks[29].

To enhance data collection and the disclosure of emissions from portfolio companies, Arcmont is collecting data directly from portfolio companies, with a specific focus on collecting SFDR Principal Adverse Impact (PAI)[30] indicator data which includes GHG emissions data. This will allow the Firm to move away from estimates. Data collection and refinement is currently in progress, and Arcmont plans to disclose the results by the end of the next reporting year.

Arcmont has not yet defined the metrics and targets that will be used to assess climate-related risks and opportunities at the product level. Until the IIGCC published its Net Zero Investment Framework for the Private Debt Industry in 2024 (which Arcmont contributed to), there was limited Private Debt-specific Net Zero guidance available. The guidance establishes an industry-wide approach for measuring progress towards Net Zero targets and aims to ensure that Private Debt asset owners and asset managers align their portfolios with Net Zero emissions by 2050, if not before. Whilst encouraging consistency, the guidance recognises that individual investors will need specific strategies and actions to achieve this. Arcmont plans to use this guidance to set a Net Zero commitment once it has been finalised.

It is important to note that Arcmont does define metrics and targets at the investment level as part of the Firm's sustainability-linked margin ratchet programme[31]. As further explained on page 41 of this report, Arcmont offers sustainability-linked margin ratchets to certain primary borrowers and endeavours to include a climate-related KPI in every ratchet. Arcmont's focus is to encourage borrowers to set and achieve science-based GHG emissions reduction targets. Examples are provided on page 43.

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[29] Subject to obligations of confidentiality under the relevant legal documents.

[30] PAIs are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

[31] Please refer to page 41 for further details on on Arcmont's sustainability-linked margin ratchet programme.

Metrics and Targets

Table 9: Metrics used to measure and manage climate-related risks and opportunities associated with the Arcmont Funds' investments. Number of investments: 108 as of 31 December 2023, 98 as of 31 December 2022.

Metric		2022			
The Arcmont Funds' investments	Units	Scope 1	Scope 2	Scope 3	Total
Total Unadjusted Portfolio Company GHG Emissions	tCO_2e	1,870,074	1,116,039	12,478,425	15,464,537
Total Fund GHG Emissions[32]	tCO_2e	181,271	100,799	1,046,390	1,328,459
Fund Carbon Footprint	tCO_2e/€m	117	34	273	425
Fund GHG Emissions Intensity	tCO_2e/€m	4,622	2,384	22,767	29,777
Fund Weighted Average GHG Emissions Intensity	tCO_2e/€m	129	68	614	810
Documented sustainability-linked margin ratchets with climate-related KPIs	#	-	-	-	10
	€billion[33]	-	-	-	1.56

[32] Calculated in accordance with Partnership for Carbon Accounting Financials (PCAF).
[33] Cost amount in GIR EUR.

Metrics and Targets

Metric			2023		
The Arcmont Funds' investments	**Units**	**Scope 1**	**Scope 2**	**Scope 3**	**Total**
Total Unadjusted Portfolio Company GHG Emissions	tCO_2e	1,038,638	554,938	3,747,081	5,340,656
Total Fund GHG Emissions[34]	tCO_2e	167,328	118,625	808,806	1,094,759
Fund Carbon Footprint	tCO_2e/€m	51	24	198	272
Fund GHG Emissions Intensity	tCO_2e/€m	4,402	1,830	12,643	18,875
Fund Weighted Average GHG Emissions Intensity	tCO_2e/€m	99	45	435	578
Documented sustainability-linked margin ratchets with climate-related KPIs	#	-	-	-	19
	€billion[35]	-	-	-	3.25

[34] Calculated in accordance with Partnership for Carbon Accounting Financials (PCAF).
[35] Cost amount in GIR EUR.

Metrics and Targets

Arcmont's Operations

At the enterprise level, Arcmont measures, reports and monitors the Firm's annual GHG emissions. Since 2021, Scope 1, Scope 2 and Scope 3 emissions as well as GHG emissions intensity per full time equivalent (FTE) have been reported annually (excluding financed emissions), as described in Table 10 below. Arcmont also plans to develop a GHG emissions reduction roadmap in the coming year. This will incorporate relevant targets and performance monitoring requirements.

Table 10: Overview of 2023 corporate GHG emissions

Scope	Definition	Details
Scope 1	Direct emissions from sources owned and controlled by Arcmont.	Refrigerants from A/C units used in Arcmont's London office.
Scope 2	Indirect emissions from the consumption of purchased electricity, steam, heat and cooling.	Purchased electricity, chilling and air handling for Arcmont's London office[36].
Scope 3	All other indirect emissions linked to the company, excluding financed emissions.	· Purchased Goods and Services · Capital Goods · Fuel and energy-related activities · Upstream transport and distribution · Waste generated in operations · Business travel · Employee commuting · Upstream leased assets (including overseas offices)

[36] Note that emissions associated with energy use from overseas offices fall within Scope 3 (Category 8).

Metrics and Targets

Table 11: Metrics used to measure and manage climate-related risks and opportunities

Absolute Metrics	Units	2022	2023	% Change
Scope 1	tCO_2e	-	5.7	N/A
Scope 2 (market-based)	tCO_2e	18.1	-	-100%
Scope 2 (location-based)	tCO_2e	40.2	68.2	70%
Total GHG emissions (Scope 1 & 2)	tCO_2e	18.1	5.7	-69%
Scope 3 (excluding financed emissions)	tCO_2e	2,569.0	2,700.0	5%
Total GHG emissions (Scope 1, 2 & 3)	tCO_2e	2,587.1	2,705.7	5%

Intensity Metrics	Units	2022	2023	% Change
GHG Emissions (Scope 1 & 2) Intensity	tCO_2e/FTE	0.2	0.0	-77%
GHG Emissions (Scope 1 & 2) Intensity	tCO_2e/£m of revenue	0.2	0.1	-73%
GHG Emissions (Scopes 1, 2 & 3) Intensity	tCO_2e/FTE	30.8	23.5	-24%
GHG Emissions (Scopes 1, 2 & 3) Intensity	tCO_2e/£m of revenue	30.6	27.2	-11%

Metrics and Targets

In 2023, Scope 1 emissions equalled 5.7 tCO_2e due to refrigerant top-ups in the air conditioning units of Arcmont's London office. Scope 2 emissions (market-based) totalled 0 tCO_2e. This reduction was due to a switch to 100% renewable energy in Arcmont's London office in 2022, which has been maintained. In total, Scope 1 and Scope 2 emissions were equivalent to 0.05 tCO_2e per FTE in 2023.

Scope 3 emissions (excluding financed emissions) equalled 2,700 tCO_2e during 2023, increasing by 5% compared to the previous reporting year. This was largely due to an increase in business travel. However, there was a decrease in GHG emissions intensity from 2022.

In the short term, to show the Firm's dedication to taking climate action, Arcmont offset its 2023 Scope 1, 2 and select 3 emissions and has included an additional 10% offset buffer to account for any margins of error in the quantification of these emissions. Please note that the Firm does not consider carbon offsetting to be a stand-alone action, Arcmont is primarily focused on reducing emissions and only uses offsetting to take responsibility for the emissions that cannot be reduced.

Remuneration

Individuals' contribution to the successful rollout of Arcmont's responsible investment strategy feeds into their performance reviews and career objective discussions. Therefore, employees are incentivised to exercise effective responsible investment. Arcmont does not currently have internal remuneration policies which link to climate-related KPIs.

Methodology

At Arcmont, operational GHG emissions are calculated in line with the Greenhouse Gas Protocol Corporate Standard[37]. Portfolio company emissions are estimated at present due to data challenges. In 2022, Arcmont began using ClarityAI to estimate emissions associated with portfolio companies. ClarityAI is an AI-powered sustainability platform which provides estimated values for a range of ESG factors in the absence of actual data. This platform leverages economic factors in addition to geography or industry allocation to match portfolio companies against comparable public companies and obtain metrics that are made available within the Clarity AI dataset. Clarity AI provides the most granular level of data that are available to popu- late estimated values based on the number of public companies within the sample. Please refer to the ClarityAI website for further information.

[37] GHG Protocol.

Next steps in 2024

In 2024, Arcmont plans to enhance the Firm's disclosures with respect to the recommendations of the TCFD. Accordingly, the following actions will be taken, and progress will be reported in Arcmont's next annual TCFD entity report:

- Conduct a deep dive study and, where possible, carry out quantitative CSA on the most material climate risks identified across the Arcmont Funds' investments. This will enable Arcmont to start considering the development of longer-term climate mitigation and adaptation plans.
- Enhance the pre-investment and post-investment ESG materiality assessments to better incorporate quantitative data, including GHG emissions, and benchmarks. This will be done by leveraging the support and capabilities of a proxy data provider.
- Reviewing climate-related risks on at least an annual basis.
- Consider climate-related metrics and targets across Arcmont's operations and the Arcmont Funds' investments. This includes discussions around setting a Net Zero target and developing an appropriate emissions reduction roadmap against which future emissions reduction can be assessed.
- Make progress towards setting fund-level Net Zero targets, in line with the most applicable internationally recognised carbon reduction framework.
- Enhance the climate data that is collected from portfolio companies. This will improve the accuracy and reliability of the emissions calculations that are disclosed within this TCFD entity report, product reports and Arcmont's annual sustainability report.
- Further develop and formalise the flow of climate-related information internally. For example, by setting standard agenda items at each of the relevant business forums, outlining how climate-related information, such as updates on CSA results or ratchet data, will be effectively shared and monitored.

Appendix 1: TCFD Content Index

TCFD Pillar	Recommended disclosure	Page reference	Supplementary Information
Governance			
Disclose the organization's governance around climate-related risks and opportunities.	a) Describe the Board's oversight of climate-related risks and opportunities.	Page 15	
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	Page 19	Climate Change Addendum
Strategy			
Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Page 25	
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Page 25	
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Page 30	
Risk Management			
Disclose how the organization identifies, assesses, and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	Page 39	Climate Change Addendum
	b) Describe the organisation's processes for managing climate-related risks.	Page 38	Climate Change Addendum
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Page 38	Climate Change Addendum

Appendix 1: TCFD content index

TCFD Pillar	Recommended disclosure	Page reference	Supplementary Information
Metrics & Targets			
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Page 46	2022 Sustainability Report
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.	Page 47	2022 Sustainability Report
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Page 46	

Appendix 2: Glossary of Terms

Term	Description
Carbon offsets	Carbon offset (or credits) is a generic term used to assign a value to a reduction, avoidance or capture of GHG emissions achieved by a certified project. It is equivalent to one tonne of carbon dioxide equivalent (CO_2e).
Climate transition plan	A climate transition plan sets out how an organisation will aim to transition its business to the low carbon economy, aiming to align its operations, assets, portfolio, and business model to meet Net Zero.
ESG	Environmental (e.g. emissions), Social (e.g. labour standards) and Governance (e.g. board diversity and accountability) are the three factors used to understand how an organisation is impacting the world around them.
Financed emissions	The financed emissions metric covers the GHG emissions which the Arcmont Funds' finance through its investments under Scope 3 Category 15. This includes portfolio companies' Scope 1 and Scope 2 emissions.
The Institutional Investors Group on Climate Change (IIGCC)	IIGCC is a global network of investors working towards a Net Zero and climate-resilient future. It provides insights, resources and events on climate-related risk, disclosure, policy and stewardship.
International Sustainability Standards Board (ISSB)	As part of the wider International Financial Reporting Standards (IFRS) Foundation, the ISSB is developing standards for a global baseline of sustainability disclosures. Focussing on sustainability-related risks and opportunities, the standards are designed to meet the needs of investors and to enable companies to provide comprehensive sustainability information to global capital markets.
Net Zero	The point at which GHG emissions released into the atmosphere have been reduced to a level that can only be balanced by projects that can remove GHG emissions from the atmosphere.

Appendix 2: Glossary of Terms

Term	Description
Scope 1	Direct emissions from sources owned and controlled by Arcmont.
Scope 2	Indirect emissions from the consumption of purchased electricity, steam, heat and cooling.
Scope 3	All other indirect emissions linked to the company, excluding financed emissions.
tCO_2e	Stands for tonnes of carbon dioxide (CO_2) equivalent. There are several greenhouse gases which contribute to warming the earth at different extents, such as carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). Rather than providing metrics for each gas they are converted into tonnes of CO_2e for reporting purposes.

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