

Environmental, Social and Governance (ESG) Investment and Risk Policy

Dated May 2019

This policy document outlines Beechbrook Capital's ("Beechbrook") approach to integrating Environmental, Social and Governance ("ESG") factors within its investment risk management framework. It applies as standard to all investments made within all Funds and Managed Accounts managed by Beechbrook.

This Policy is reviewed on a regular basis by the ESG Team and approved by the Board. It is updated where necessary to reflect changes in circumstances and actual practice.

1. UNPRI

Beechbrook is a signatory to the UNPRI's Principles for Responsible Investment. The issues described in the Global Compact and Principles for Responsible Investment (www.unpri.org) regulations are incorporated in our investment analysis and investment decision-making process. We also regularly report to the UNPRI and investors on our ESG-related activities and improvements.

2. Introduction

Beechbrook Capital ("Beechbrook") is an Investment Manager/Advisor to sponsored private debt funds (together "Beechbrook Private Debt Funds") and to sponsorless direct lending funds ("Beechbrook UK SME Credit Funds").

Beechbrook confirms that the Environmental, Social and Corporate Governance ("ESG") issues described in the Global Compact and Principles for Responsible Investment regulations will be incorporated in our investment analysis and our investment decision-making processes. However, as providers of debt products, the scale and magnitude of such engagement needs to be put into context that as debt providers, we are not active owners of the companies we invest in and as such have no control over the issuers and limited means with which to influence them.

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.

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6. We will each report on our activities and progress towards implementing the Principles.

Regular ESG training is conducted for all Beechbrook employees to ensure that ESG issues remain at the forefront of our decision-making regardless of role.

3. Investment philosophy

Our philosophy and key target is achieving attractive risk-adjusted returns for our investors. This is based around a thorough due diligence process to evaluate the credit-worthiness of a borrower prior to making an investment and pricing risk appropriately.

We believe ESG factors can potentially have a material impact on an issuer's long-term financial performance. Given the limited upside and potentially significant downside of fixed income investments, the focus of its ESG analysis is on understanding downside risks. Poorly managed ESG risks can lead to inefficiencies, operational disruption, litigation and reputational damage, which may ultimately impact an issuer's ability to meet their financial responsibilities. Supplementing traditional financial analysis by reviewing ESG related management practices and performance is therefore not only prudent but also in line with our fiduciary duty to optimise investor returns.

In addition, we actively look for investment opportunities in companies that promote best practise and lead their respective industry in ESG related matters.

4. ESG investment factors

Environmental, Social and Governance ("ESG") covers a broad agenda, including issues relating to the workplace, community, marketplace, environment and governance. Beechbrook recognises that ESG factors can have a significant impact on private debt investments, creating sustainable value within companies.

Environmental

Sustainable business practices, with a focus on limiting the impact on the environment, have become of increasing importance in the business community. We acknowledge our responsibility to preserve the environment for coming generations and encourage appropriate business practises from other stakeholders.

The issues in this field are diverse but the main areas are:

- Reduction of toxic emissions, fluids and other materials
- Sustainability of resources
- Efficient energy consumption
- Permanent destruction of forests and other natural habitats
- Responsible disposal of hazardous materials
- The impact of climate change on businesses

Social

Inclusion, diversity and equality have become increasingly important competitive differentiators for companies.

There are significant commercial benefits for businesses that have implemented inclusive and diverse work business practices. During Beechbrook's due diligence process we particularly look at the impact a company has on its staff, local communities and society as a whole.

The main areas of consideration are:

- Avoidance of any complicity in human rights abuses
- Health and safety

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- Avoidance of child labour and related business practices
- Inclusion, equality and diversity
- Non-discriminatory practices
- Avoidance of exploitative business practises

Corporate Governance

Generally, corporate governance refers to the key rights and responsibilities of the management and the oversight of a company including values, structures, and accountability processes and procedures.

In the context of Beechbrook, this relates to the following areas:

- Management structure - checks and balances between members of the management team and the Board
- Separation of duties
- Incentive structures and executive remuneration
- Stakeholder management
- Corporate Codes of Conduct

5. ESG internal resources and communication

Although there is no one individual dedicated to ESG, there are a number of people at Beechbrook that are responsible for insuring that:

- The policy is up to date and reflects the best practices of Beechbrook on an ongoing basis
- All team members receive appropriate training on ESG related matters
- The Investment and Portfolio Teams follow the ESG policy in their investment processes
- Promoting best practises to external stakeholders

The ESG team is currently headed by Jonathan Penfold, who has significant experience in running social enterprises. As of May 2019, additional members of the ESG team include Emily Collins, Xixi Richter and Felix Beckmann.

6. ESG Investment and risk management approach

We employ an ESG integration strategy among all our strategies, assessing ESG considerations in parallel with conventional credit and investment considerations during our due diligence process. As outlined in the table prepared by PRI below (further developed by Beechbrook), there are a number of steps between pre-deal and exit during which traditional and ESG considerations will be analysed.

	Typical considerations for private debt investments	ESG considerations	Engagement activity
Pre-deal cycle	<ul style="list-style-type: none"> – Develop statement of investment principles – Define investment universe – geography, sector, credit strength, deal size etc. Engagement 	<ul style="list-style-type: none"> – Develop responsible investment/ESG policy – Define ESG screening criteria – Educate external agents on RI policy – Define ESG impact 	– Not applicable
Pre-transaction			
Phase I Origination & Pre-assessment	<p>Sourcing & origination:</p> <ul style="list-style-type: none"> – Generate investment ideas – Identify investment opportunities <p>Pre-assessment:</p> <ul style="list-style-type: none"> – Conduct high-level due diligence – Identify any red flags for further consideration in due diligence process – Take decision to proceed to due diligence phase 	<ul style="list-style-type: none"> – Apply negative ESG screens – Identify any ESG red flags for consideration in due diligence process – Consider jurisdictional ESG issues such as local governance, legal systems, ESG policy and regulation 	– Engage senior management of prospective borrowers for disclosure of potential ESG risks
Phase II Due diligence & Investment approval	<ul style="list-style-type: none"> – Conduct credit analysis – Conduct in-depth due diligence – Write up investment memorandum – Negotiate/finalise terms – Take investment committee decision – Transact 	<ul style="list-style-type: none"> – Conduct ESG due diligence – Integrate ESG summary in investment memorandums – Educate investment committee on relevant ESG considerations – Include ESG reporting requirements for borrowers in terms – Determine ESG monitoring needs 	<ul style="list-style-type: none"> – Request management changes relating to ESG (e.g. board independence) – Arrange regular dialogue with borrower management – Educate borrowers about investor ESG needs – Define requests for ongoing monitoring of pertinent ESG criteria
Post-transaction			
Phase III Investment holding period	<ul style="list-style-type: none"> – Ensure on-going borrower reporting and monitoring – Address developments and incidents that pose risks/potential defaults – Provide technical assistance – Undertake potential restructuring process 	<ul style="list-style-type: none"> – Carry out on-going ESG monitoring – Support improvements that address ESG risks – Identify potential positive impacts – Ensure manager ESG reporting to investors 	<ul style="list-style-type: none"> – Include ESG agenda items in regular borrower meetings – Manage ESG risks relating to potential defaults
Phase IV Exit	<ul style="list-style-type: none"> – Consider possible refinance options – Close out process 	<ul style="list-style-type: none"> – Undertake ESG impact assessment – Facilitate manager ESG reporting to investors – Consider internal close-out process including ESG lessons learned 	– Consider close-out process with borrower, including ESG lessons learned

Source: Spotlight on responsible investment in private debt, Beechbrook analysis

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We do not automatically exclude businesses from investment purely on ESG risks if the decision-making bodies within Beechbrook feel that such risks are reflected in the overall assessment of the opportunity.

The key reason for deploying this strategy is to make sure the investment teams are aware of ESG analysis tools and that informed investment decisions are taken having incorporated ESG factors in the process and reflecting it in the risk / return profile of each investment.

The level of ESG related work depends on a number of aspects, such as the industry the company operates in, the countries norms and cultural nuances, etc.

Being a relatively passive private debt investor rather than an active owner of companies, we are aware that our access to the management teams and information can be limited. We therefore take a pragmatic approach when it comes to the appropriate level of ESG research as part of our investment process.

Overall, our ESG integration takes place on four levels:

- Company: analysis at company level. What is our ESG credit risk at a company level? What risks could arise going forward? This usually comprises a **fundamental bottom-up micro-level** analysis of the various ESG risks and opportunities of the business using a number of information sources such as quantitative data, interviews, third party due diligence work, etc.
- Sector/industry: What are the key ESG issues in the respective industry? What can be done to mitigate the risks identified? The sector analysis generally consists of a **detailed top-down macro-level** analysis of trends and developments relating to political, economic, social, technological and legal aspects. Our main sources of information are third party due diligence providers, industry experts and proprietary analysis conducted inhouse.
- Portfolio/team: How do identified risks compare to other elements of the portfolio?
- Group: How would the investment impact the overall strategy of Beechbrook?

ESG engagement

We believe that we, as providers of private debt products, have an important role in engaging with businesses on ESG matters. However, the scale and magnitude of such engagement needs to be put into context that as debt providers, we are not active owners of the companies we invest in and as such have more limited means to influence issuers.

During our investment analysis process, the investment teams meet the company's management teams and have the ability and obligation to raise questions relating to ESG.

On a case by case basis, we might further intensify our engagement for example in case of a specific event that occurred. This engagement does not end at the point of our investment but continues throughout the investment period. We are in continuous contact with each of our investee companies and we actively engage with them on ESG as well as non-ESG related matters.

Recognising the limitations as a debt provider rather than an owner of a business, we will continue to improve the ways to perform effective ESG engagement to maximise the impact of such engagement and make the most efficient use of resources, including involving investors and other stakeholders.

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ESG negative screening

In addition to ensuring we follow all applicable laws, regulations, and economic sanctions, we apply ESG negative screening for all Funds. The screen is produced, based, and centred on excluding corporate issuers' involvement in a number of products and industries. The scope of the restrictions is reviewed on a regular basis.

Currently, we do not consider businesses as a potential investment that are involved in:

- an illegal economic activity (i.e. any production, trade or other activity, which is illegal under the laws or regulations applicable to the Partnership, including without limitation, human cloning for reproduction purposes);
- the production of and trade in tobacco and related products;
- casinos and equivalent enterprises including online gambling
- pornography
- the financing of the production of and trade in weapons and ammunition of any kind, it being understood that this restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies
- businesses that derive more than 10% of revenues from the extraction of fossil fuels,

7. Collaborating and promoting best practice

We actively encourage the adoption of the PRI internally and externally. We provide training internally and members of the team provide training and knowledge sharing speeches to external parties.

8. Transparency and accountability

We are committed to providing relevant and timely information and reporting of our ESG efforts internally (e.g. communication between the investment teams or board level) as well as externally (e.g. investors and other stakeholders).

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