UK Stewardship Report

2022

The Financial Reporting Council (‘FRC’) UK Stewardship Code aims to enhance the long-term returns to shareholders via improvements in the quantity and quality of engagement between companies and investors through integration of Environmental, Social and Governance matters into the investment approach. We have integrated the FRC Stewardship definition within our efforts.

This document outlines our stewardship activities during the reporting period 2022, with a focus on the integration of Environmental, Social and Governance factors into our investment process. We believe that our stewardship activities directly support our objective of delivering strong, long-term investment returns for our clients.

The Twelve Principles

PURPOSE AND GOVERNANCE

Principle 1	Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society
Principle 2	Signatories' governance, resources and incentives support stewardship
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities

INVESTMENT APPROACH

Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities
Principle 8	Signatories monitor and hold to account managers and/or service providers

ENGAGEMENT

Principle 9	Signatories engage with issuers to maintain or enhance the value of assets
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers

EXERCISING RIGHTS AND RESPONSIBILITIES

Principle 12	Signatories actively exercise their rights and responsibilities

Purpose and Governance

Principle 1

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

Purpose, Strategy and Culture

From its inception in 2002, Alcentra's (Alcentra Ltd.) primary goal has been to achieve attractive long-term investment returns for clients – our purpose and the fundamental reason for existence – and the North Star for leadership. We believe that environmental, social and governance (ESG) considerations are the crux of responsible investment, and we incorporate these factors in investment decisions to achieve the overarching client objectives, whilst endeavouring to contribute to positive change. Alcentra is one of the largest European headquartered credit and private debt managers, with $35 billion of assets under management (AUM) and global expertise in Senior Secured Loans, High Yield Bonds, Private Credit, Structured Credit, Special Situations and Multi-Strategy credit. We employ a disciplined, value-orientated approach to evaluating individual investment and portfolio construction across all of our investment strategies.

Our European product range has been thoughtfully, and deliberately developed, into a broad, complementary set of investment strategies and products allowing us to work with investors around the world to help them make the most of market opportunities. We are connected to the world and to our clients: we place a great emphasis on researching and understanding emerging economic trends and major market insights to energise our thinking and keep our business moving forward. We have a diverse investor base of 500+ investors across Europe, North America and Asia-Pacific.

Alcentra's culture is sustained by the following three shared values – creativity, collaboration, and commitment. These values are the glue that binds the team together. Within this value system, Alcentra encourages employees to model these beliefs and behaviours. As a company, we are focused on maintaining a culture that values and exemplifies ethical and honest conduct, to protect our investors' capital and to engage with communities to make them a better place.

COLLABORATIVE

- We listen to our partners and team members
- We share our learning and knowledge
- We strive to have fun as a team

CREATIVE

- We are open to new ways of thinking and we assume a solution is possible
- We recognise the importance of diversity in broadening perspectives
- We prioritize simplicity over complexity

COMMITTED

- We act ethically and honestly
- We aspire to deliver outstanding client and career experiences
- We engage with our communities to make them a better place

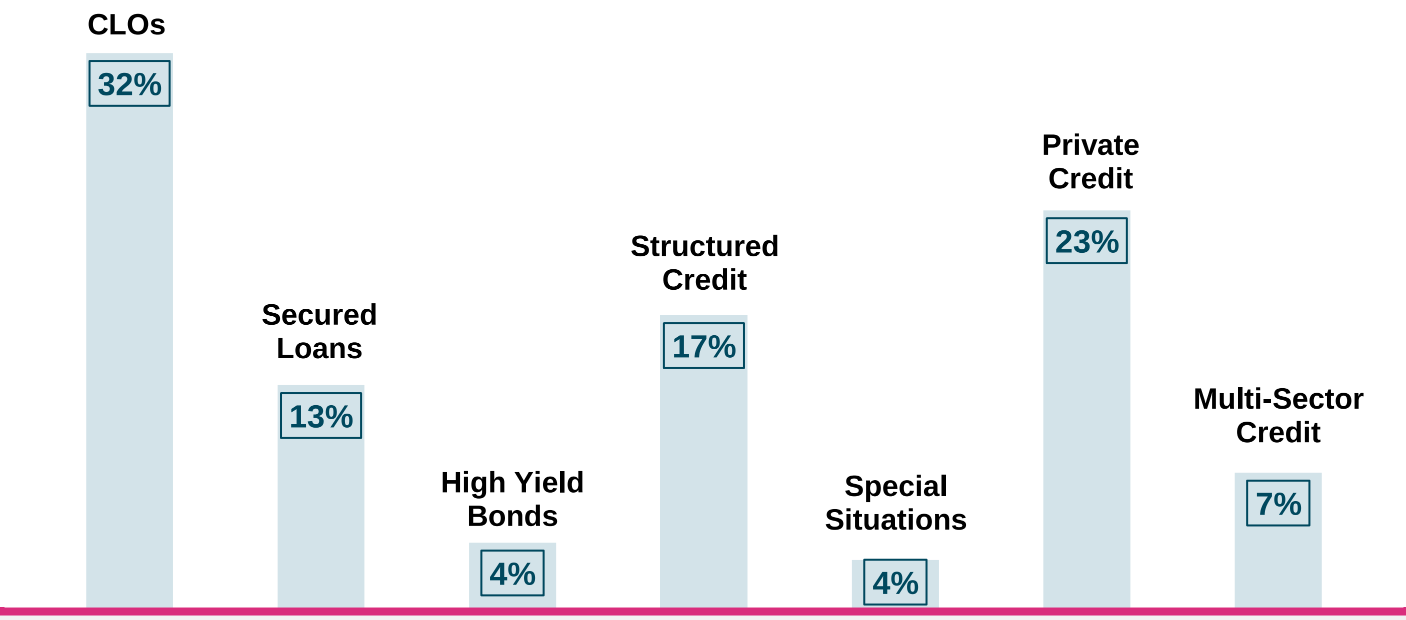
We have an experienced team of global professionals based out of offices in London, New York, Boston, Tokyo, and Hong Kong who work across asset classes, business sectors and geographies. Our investment team has significant expertise and a deep understanding of corporate debt across our strategies.

Alcentra is committed to diversity and promotes gender equality across the firm. Initiatives that we support include flexible working and mentoring schemes such as the 30% Club to provide support for women to move into senior positions.

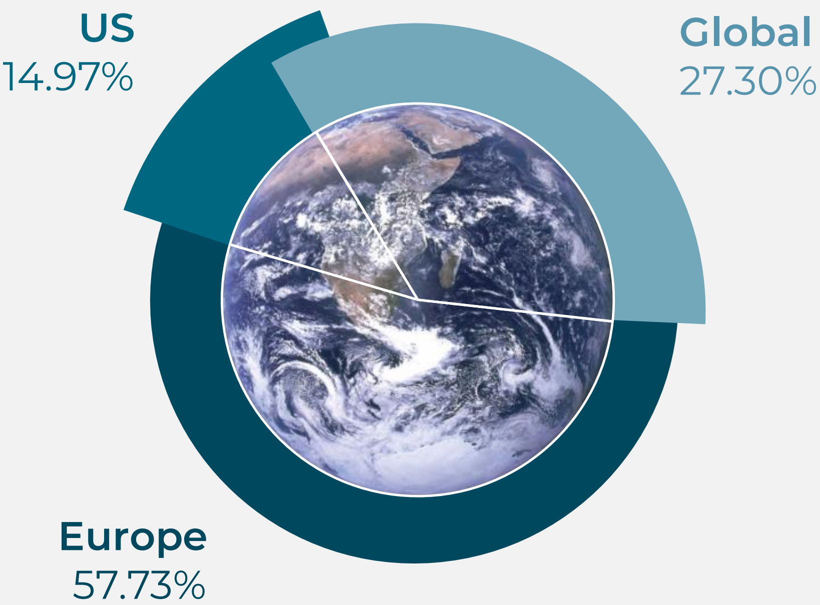
Franklin Resources Inc became one hundred percent shareholders of Alcentra on 1st November 2022 and includes affiliate company Benefit Street Partners. Post acquisition of Alcentra, by Franklin Templeton, the diversity of the firm – and of senior management – remained a key priority. The senior management team of Alcentra is a diverse group, with female representation in senior roles across the firm, such as: the Co-Head of Direct Lending, the Head of Trading (non-FX), the Head of Structured Credit, the Co-Heads of Product Management, and the COO of Global Business Development. The Management Committee is comprised of 33% female representation. Alcentra's Board of Directors consists of four members, with representation from two independent non-executive directors. As of 31 December 2022, 40% of Alcentra's 154 employees identify as female. Alcentra's commitment to improving gender diversity across the Firm can be noted in the fact that in 2022 over 51% of all hires were female.

$35bn
Total Firm AUM

by Strategy



by Geography



[1]

[1] As at 31 December 2022.

"We believe that by further incorporating responsible investment principles into our deeply engrained focus on clients, we will be increasingly successful in achieving our overarching goal of providing attractive long-term returns. We have long considered the significance of robust governance measures on company performance. However, given the material impact of global macro considerations over the past several years – from inflation and financial market volatility to the COVID-19 pandemic, to the humanitarian crisis in Ukraine and severe weather causing detrimental impacts to communities – we have increasingly been guiding our stewardship efforts to focus on social and environmental considerations, as evidenced by our Direct Lending Article 8 fund under SFDR."

Ross Curran
Head of Responsible Investing

Investment beliefs

Alcentra's Responsible Investment Policy has been established to outline responsible investment principles to guide our investment decisions and stewardship activities. We broadly base our due diligence approach on internationally recognised standards such as the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. We believe some corporate activities and behaviours are not compatible with our business values and responsible investment philosophy. Consequently, we have also established ESG exclusion criteria.[1] and apply a negative screen to our investments. We have outlined below our priorities across governance, climate change, environment and social matters when assessing and engaging with companies. Our teams collaborate with clients to determine the allocation, management, and oversight of capital.

As stewards of our clients' capital, we manage our investments in a responsible manner. Alcentra believes that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth. The consideration of sustainability risk forms an important part of our due diligence process. When assessing the sustainability risk associated with our investments, we assess the potential risk that their value could be materially negatively impacted by environmental, social or governance (ESG) factors. This analysis requires an understanding of companies' impact on their environment and society. We believe this approach allows us to make better investment decisions. We have been a signatory to the Principles for Responsible Investment (PRI) since 2018.

Governance

As a provider of capital to companies, we have a vested interest in ensuring the issuers in our portfolio are able to service their credit obligations in a timely manner and that they maintain a stable credit risk profile. Although we do not have the same ownership rights as shareholders, we share common interests. We believe good corporate governance is fundamental to ensure our client's interests as creditors are protected. An effective board is also essential to oversee the adequate management of environmental and social risks. The board sets the tone for the organisation and influences firms' behaviour on environmental and social matters. As part of our governance due diligence, we take into consideration various factors, including but not limited to: i) board structure and composition; ii) remuneration practices; iii) anti-corruption practices; iv) transparency and ethical conduct; and v) oversight of sustainability risks.

Climate change

Alcentra believes the economic impacts of climate change will be felt across industries and markets; however, we recognise the magnitude and timing of these impacts remain uncertain. Alcentra supports the goals of the Paris Agreement to limit global warming to 1.5 degrees Celsius. An orderly transition in line with the Paris Agreement goals is important to reduce climate-related risks for the companies we invest in. We became an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD) in 2020. We believe the TCFD recommendations provide a useful framework for companies to articulate how they identify, mitigate, and manage transition and physical climate risks. Our principles for assessing and engaging with companies on climate change matters are broadly based on the TCFD recommendations. We assess companies' preparedness to manage the climate transition, through incorporation of our internal climate tool and we enquire about company climate targets in our engagements.

[1] We provide further information on the ESG exclusion criteria under Principle 7.

Environment

Environmental risks relate to the quality and functioning of the natural environment and natural systems and the impact of a company's operations on the environment. Companies could face increased compliance costs due to stricter regulatory requirements, fines, litigation risks, reputational risks, and changes in consumer preferences. These risks could impact on a company's ability to service their debt. At Alcentra, we assess issuers' exposure to material environmental issues, which could include water management, waste management, land use change and biodiversity and airborne pollution. Our starting point is to identify the most material environmental risks relevant to the issuer's sector. We seek to understand the company's internal policies to address environmental issues, as well as the impact their operations may have on the environment.

Social

Companies may be exposed to social-related risks through their operations, supply chains and business relationships. As part of our due diligence, we may assess factors related to how companies manage human rights, human capital, the impact of companies' products and services on society, as well as how issuers manage relationships with stakeholders. Social factors may pose reputational, regulatory, and legal risks and costs to companies and, through our rigorous assessment, we aim to identify and mitigate these.

"Collaboration is the heart of Alcentra's ethos. We believe that working together to integrate responsible investment principles across our investment strategies will assist in creating the best possible returns for our clients. Our responsible investment team is co-located with the investment teams and integrated across the firm. The responsible investment team works closely with investment teams to ensure ESG research, investment decisions and stewardship activities are bilaterally communicated and challenged by providing constructive feedback, to encourage more effective outcomes."

Ruth Davis
COO Global Business Development

We believe the establishment of our responsible investment principles, ESG assessment framework and stewardship activities have played an important role in protecting and enhancing the value of our clients' investments and assisting in the delivery of attractive investment returns.

Alcentra strives to work collaboratively with clients and beneficiaries, in an effort to continually do what is in their best interest – and to be a responsible steward of capital. We are continually working to further integrate our ESG principles across our firm's culture and investments strategies.

Principle 2

Signatories’ ***governance, resources and incentives*** support stewardship.

Governance of ESG risks[1]

Overall responsibility for ESG matters falls under the Alcentra Limited Board of Directors ("the Board of Directors"). Alcentra's Management Committee reviews and monitors the implementation of the firm's responsible investment strategy. The establishment of Alcentra's ESG Committee in 2021 denoted a focus on responsibility for the approval and implementation of ESG-related policies and procedures. The ESG Committee monitors issuers with significant exposure to ESG risks and oversees our ethical exclusions. Additional responsibilities include the:

i) approval of Alcentra's responsible investment policies and procedures.

ii) approval of financial products with responsible investment credentials; and

iii) monitoring of relevant regulatory developments.

The ESG Committee is comprised of senior members from the investment, business development, product management, responsible investment and risk and compliance departments to ensure relevant and diverse representation from all areas of the firm. The ESG Committee meets at least on a quarterly basis. Alcentra's Responsible Investment policy is approved by the ESG Committee and presented to the Board of Directors. The policy is reviewed on an annual basis.

Responsible Investment team

Our responsible investment team is fully integrated into our investment team. The scope of work is broad, which includes supporting analysts and portfolio managers in i) conducting company and sector research; ii) making investment decisions; iii) monitoring credits; iv) providing constructive challenge; and v) engaging with companies on ESG matters. In addition, the responsible investment team monitors regulatory developments relevant to Alcentra and the companies we invest in. The Head of ESG is responsible for ensuring our investment process incorporates the assessment of ESG risks and for further enhancing the firm's ESG capabilities. The latter involves conducting training and delivering information sessions for the firm on relevant policy, market and technology developments.

Alcentra's dedicated responsible investment team, established in 2021, works to further develop the firm's responsible investment strategy, policies and procedures. The Head of Responsible Investing is also a member of Alcentra's Liquid Credit Investment Committee and co-chairs the ESG Committee. The responsible investment team works across the firm to support the execution of Alcentra's responsible investment strategy, including the integration of ESG factors into investment decisions.

Over the course of 2022, the integration of ESG was further embedded into certain roles, across strategies and teams – including: Investor Relations, Product Management and investment research teams, through additional training and collaboration. Our Structured Credit team proactively engaged with CLO Managers to map the underlying emissions of their holdings – wherever data was reported and provided to the team – and introduced an Exclusions Policy to their CLO Managers. Our Private Credit team added two analysts to their Portfolio Team, as part of their role, they consider ESG elements: including supporting investor queries for ESG and assisting with the liaison and tracking of ESG margin ratchets.

We have been focused on enhancing diverse and inclusive involvement in ESG activities across the firm – such as the creation of a Volunteer Team – which welcomes all employees interested in participating, ranging from interns and inexperienced new joiners to senior management. Our highly experienced and dedicated Private Credit and Structured Credit heads[2] are female, both of whom provide unique insight and oversight to the operations of their teams and portfolio management.

[1] The above stated Governance of ESG risks refers to the set of policies and procedures in place prior to 1st November 2022.
[2] As of 1st November 2022.

Linking ESG to remuneration

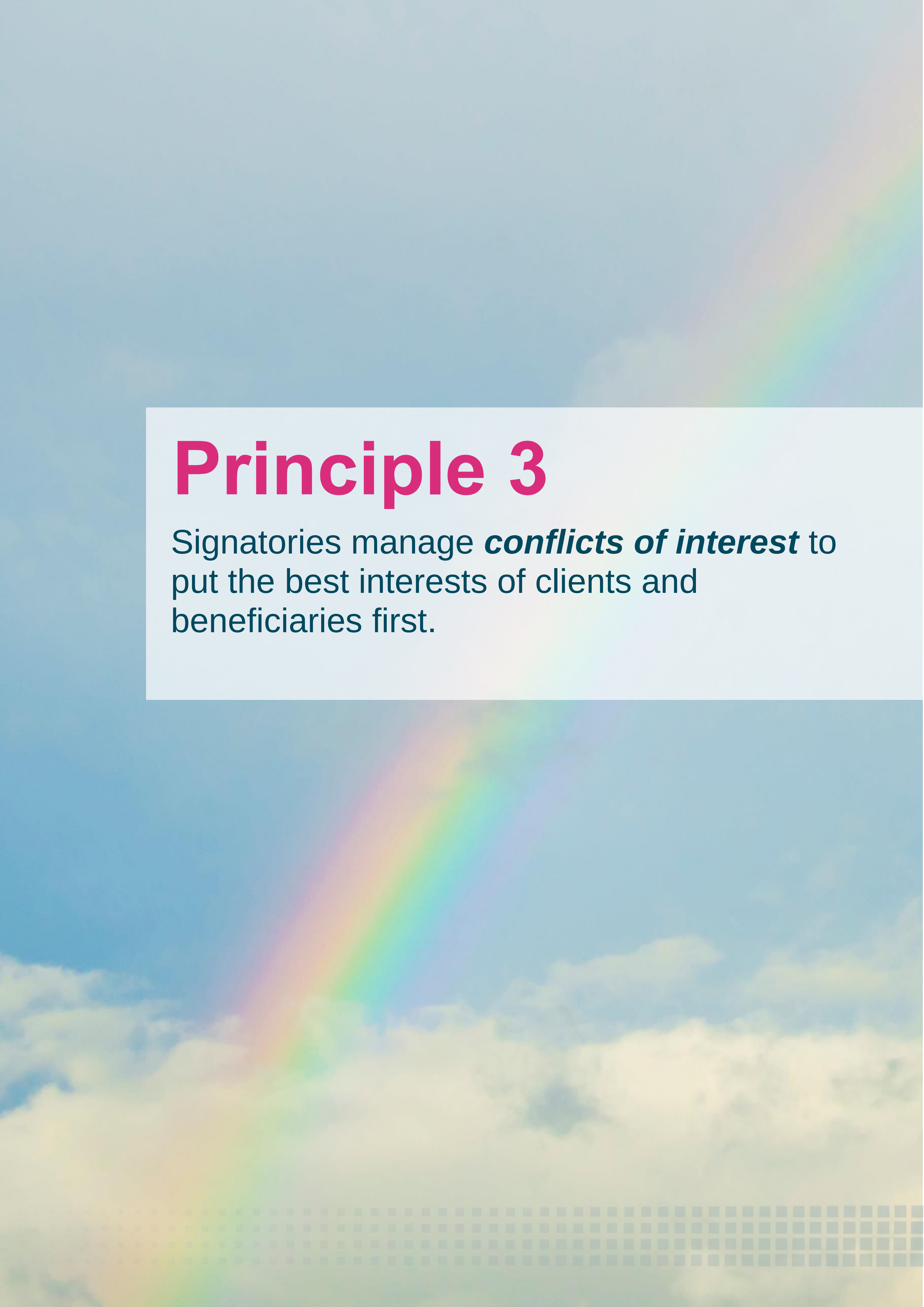
Alcentra recognises the importance of ESG integration to support our mission of creating sustainable, long-term value and returns for our clients. The Firm's Remuneration Policy promotes non-excessive risk taking by its employees, including its investment professionals. ESG-related activities, including company engagements, are a component of the research team's individual variable remuneration.

"Direct lenders and alternative credit managers like Alcentra may not have the same level of strategic control of companies as equity owners, but expectations around ESG are no different. Interest in ESG from our investors has grown exponentially, even in the last three years. All of this is underpinned by a wave of regulation across our core markets. At Alcentra we are constantly looking at what all this means for our investment and engagement processes, including what information we presently need and what information we may need in the future – and how we can increase engagement with portfolio companies around reporting and performance improvements. A core part of this process involves dedicated training and the development of our investment and business development teams."

Vai Patel
Head of ESG

Outcomes and effectiveness

- The Alcentra Board completes an internal evaluation to measure the effectiveness of the board.
- The Board Remuneration and Nomination Committee is tasked with reviewing the structure, size, and composition of the Board (including skills, experience, and diversity). The Committee also makes recommendations for Board appointments and ensures plans are in place for the orderly succession of the Board and Senior Management positions.
- Alcentra's ESG Committee and responsible investment team provide the firm with a solid foundation to implement its responsible investment strategy. We will continue to evolve and enhance the ESG capabilities of the organisation across our different investment strategies through ESG training.
- Over the course of 2023, we intend to nominate ESG Ambassadors to each strategy to further embed our responsible investment principles across the firm. The ESG Ambassadors will assist with the dissemination of information – particularly with regards to regulatory updates, investor queries, best practice in markets and stewardship priorities.



Principle 3

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

Managing conflicts of interest

Alcentra is committed to ensuring that the highest levels of integrity and ethics are maintained across operations. We are required by global regulators to identify conflicts of interest between ourselves and our clients and between clients. We work to prevent and manage potential conflicts of interest, record conflicts of interest and maintain a Conflict-of-Interest policy. The policy is managed and approved by our Head of Risk and Compliance. Our Conflicts of Interest Policy is reviewed every other year by our Compliance team. No material changes were made to the policy in 2021. As part of the policy, staff are required to report any potential conflicts to the compliance team for assessment. Alcentra maintains a Conflict-of-Interest Register to capture and measure potential conflicts.

All staff are required to follow policies and procedures related to handling confidential and inside information and conflicts of interest. Staff are required to complete mandatory training upon induction to the company and may also be required to conduct annual or more frequent reviews. Some of our key policies and training courses for employees, as of 1st November 2022, are outlined below.

FIRM AND GROUP POLICIES	TRAINING
Handling of Complaints	Culture of Compliance: The Franklin Templeton Code of Ethics and Business Conduct
Error Reporting	The Franklin Resources Anti-Corruption Policy
Employee Code of Ethics	Communication and Information Security at Franklin Templeton
Order Execution Policy	Privacy and Data Protection Essentials
Aggregation/Allocation Policy	Respect in the Workplace
Inside Information, Firewalls and Market Sounding Policies	Anti-Money Laundering at Franklin Templeton
Anti-Corruption Policy	Annual U.K. Regulatory Compliance Training (U.K. only)
Personal Securities Trading Policy	Personal Investments and Insider Trading Policy
Gifts and Entertainment Policies/Outside Interests	Annual Compliance Meeting / Firm Element
Proxy Voting Policy	HIPAA Security Policy
Conflict of Interest Policy	

Mitigating conflicts of interest

Alcentra recognises there may be situations that create conflict of interests. In an effort to ensure that any potential risks are mitigated, Alcentra creates a culture of good governance with appropriate policies and processes in place to identify and mitigate such risks. It is of utmost importance that our employees abide by the Alcentra policies and procedures. We describe some of the identified potential conflict of interests in the following table.

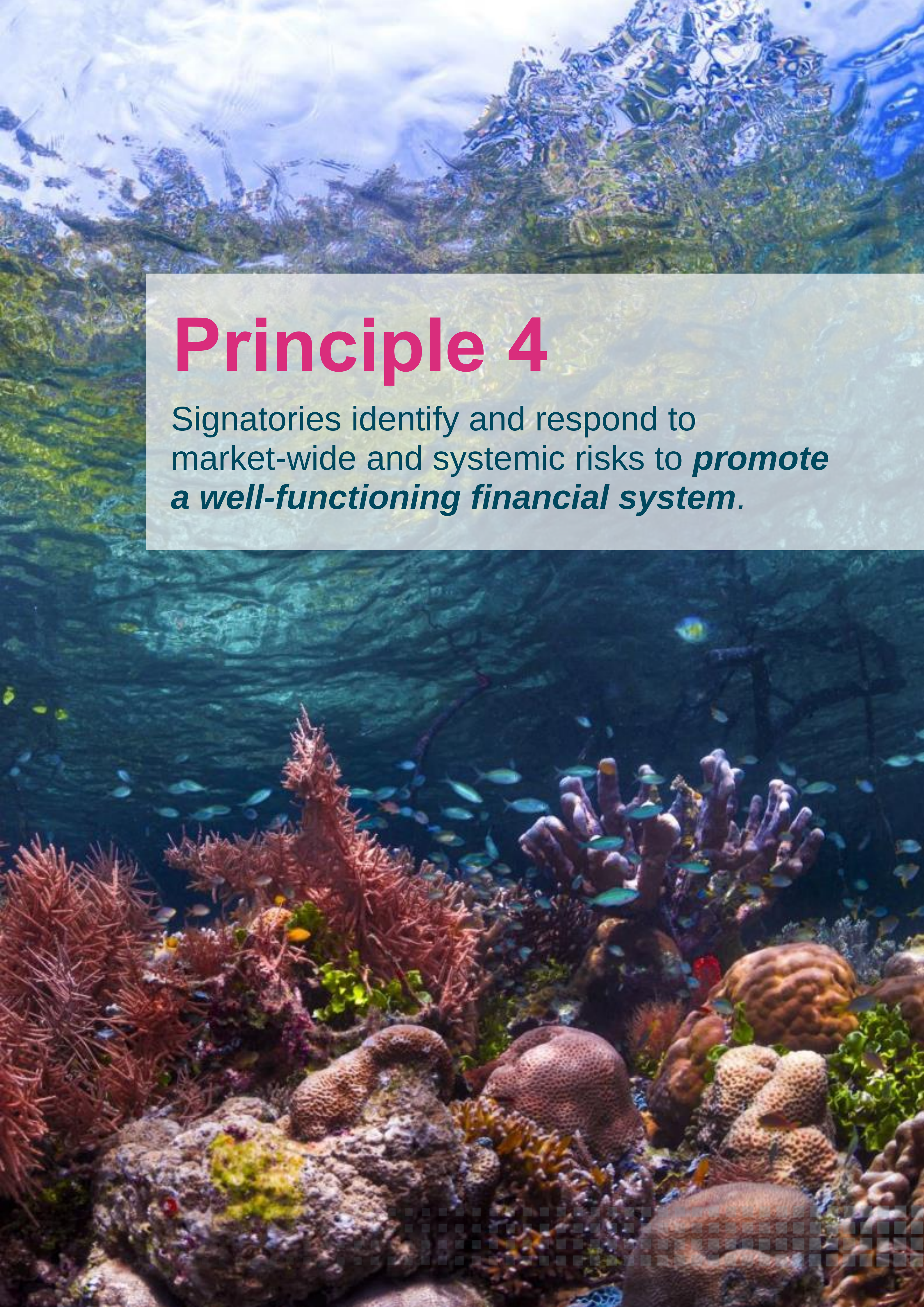
Table 1: Examples of potential conflicts of interest

Example	Conflict situation	How we manage the conflict
External Directorship	Where members of staff hold external directorship functions, there may be certain situations that will present a conflict between services provided to the company in which staff hold such positions, and duty of care to one or more clients.	Investment managers have a fiduciary duty to manage the client's best interests. In addition, we do not retain any remuneration. Where the underlying company pays a director, the fee goes to the underlying funds. Therefore, we are incentivised to work for our client, not the issuer or borrower. All Board directorships must be approved by the firm's Compliance Team, prior to acceptance.
Cross Trades	Alcentra funds from time to time engage in intra-fund cross trades; these need to demonstrably be to the interest of all parties.	The Alcentra Order Execution Policy alongside desk procedures addresses how cross trades are to be dealt with. Regular management information is provided to the Alcentra Risk Committee.
Allocation of Trades	A conflict may arise if the aggregation of client orders does not include all eligible accounts, or if the post trade allocation of a partial fill does not evenly distribute the scaled back amounts fairly to the participating accounts	The Firm has in place an Aggregation and Allocation Policy which provides the high-level principles that the firm employs, including the default methodology of pro rata for scale backs. Each strategy has an agreed allocation methodology. Quarterly Allocation Surveillance results are provided to Alcentra Risk Committee.

Voting-related conflicts of interest

As a credit manager, proxy voting is not material within the context of our activities. The number of occasions when Alcentra will be engaged in proxy voting will be limited. However, Alcentra's compliance team works to ensure that all potential voting conflicts of interest are mitigated through the following checkpoints:

- Alcentra will retain the contractual right not to vote when it perceives potential conflicts between the services offered to the company and the duty of care to clients.
- When unsure if voting will create a conflict for Alcentra clients, this must be discussed with Risk and Compliance.
- In cases where there are identified conflicts, including but not limited to voting, this should be escalated to Risk and Compliance.
- Alcentra's Compliance Department should be informed of situations where the teams have abstained from voting.



Principle 4

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

Well-functioning markets and systemic risks

In alignment with our purpose, we believe it is essential to identify and work to mitigate systemic risks in order to support a more equitable, sustainable and well-functioning financial system. Alcentra actively works to improve market standards and promotes transparency and ESG data availability. We do this individually, as well as in close collaboration with other stakeholders, including peer investors; for example, through our participation in various working groups or committees in PRI and ELFA. We also respond to consultations from standard setters to voice our views on matters that are relevant to our business and the companies we invest in.

Climate change

Systemic risks have the potential to impact on the return of our investments. Climate change is the overarching systemic risk for most sectors we invest in. It presents risks for credit portfolios, although the magnitude and timing of the consequences are uncertain. Climate change is creating complex and interconnected risks that are challenging to measure and manage. Stewardship is a central tool we use to address climate risks. Alcentra became an official supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) in 2020. As Alcentra is deemed to be a Phase Two firm, under the FCA, it will be making its TCFD Reporting requirements in July 2024. We believe standardised corporate climate disclosures are necessary for us to make better informed investment decisions and help ensure a level playing field.

We enter into dialogue with companies in sectors highly exposed to climate risks to better understand the nature of their exposure, as well as the management of climate risks. Specifically, we seek to understand how companies' business models align with the goals of the Paris Agreement and firms' transition plans for reaching net zero greenhouse gas emissions (GHG) in 2050. If companies held within our portfolio do not have any transition plans in place, this provides us with an opportunity to engage and collaborate, in an effort to assist in setting stretch targets to reduce emissions in alignment with the Paris Agreement.

Throughout 2022, we further built upon our internal database with issuers' climate data – and analysis of the climate impact of our investments through use of our proprietary Climate Risk tool. Whilst we have been engaging with companies on climate change issues for several years, we will intensify our dialogue to help improve the availability of climate data in the sub-investment grade market. Within Private Credit for 2023, we have utilized the Novata platform, which we expect to lead to greater disclosure of climate data across this asset class. As the availability and quality of climate information improves, we will be able to have a more comprehensive overview of the climate impact of our portfolios.

We also engage in collective action through our participation in industry groups to signal to policymakers the measures we consider are necessary to achieve an orderly climate transition. Alcentra signed the 2021 Global Investor Statement to Governments on the Climate Crisis. Alongside an additional 587 investors, representing over USD $46 trillion in assets (around 40% of the world's AUM), we called on governments to act on the climate crisis. Through this collaboration, we acknowledge that governments' ability to deliver on their commitments will depend on private capital assistance in order to mobilise finance at the scale that is needed to achieve the Paris Agreement's goals.

We closely monitor the development of industry standards that help shape market practices. We will continue to engage with standard setters to express our views on relevant regulatory proposals. We are also exploring the participation in industry working groups to support the development of frameworks that can help financial institutions assess climate impacts.

We understand that as investors, we have the opportunity to constructively address and respond to market-wide and systemic risks. We have benefited from collaborations with peer investors to improve market standards and reduce systemic risks, such as climate change. However, we recognise there are opportunities to further collaborate with others in the global investment community, so we will continue to explore and prioritise initiatives and working groups that seek to address systemic risks relevant to the firm.

Additionally, in 2023, we will be onboarding further third-party data providers to augment our research and review of relevant macro-considerations and systemic risks through a holistic viewpoint.

Our newly acquired parent company, Franklin Templeton, is a member or signatory to the following initiatives aimed at bringing about systemic change:

- CDP (formerly Carbon Disclosure Project)
- UN Principles for Responsible Investment (UN PRI) – *Alcentra standalone signatory*
- International Corporate Governance Network (ICGN)
- The Taskforce on Climate Related Financial Disclosures (TCFD)
- Net Zero Asset Managers Initiative
- Climate Action 100+
- UK Sustainable Investment and Finance Association (UKSIF)
- Foro de Inversión Sostenible de España (Spainsif)
- Responsible Investment Association (RIA)
- Canadian Coalition for Good Governance (CCGG)
- Global Real Estate Sustainability Benchmark (GRESB)
- European Sustainable Investment Forum (Eurosif)
- The Harvard Law School Corporate Governance Roundtable
- Sustainable Accounting Standards Board (SASB) Alliance

Risk management framework

Alcentra operates a strategy that incorporates 'three lines of defense' in the management of risk. Key roles and responsibilities are defined within the firm's Corporate Risk Management policy. The Board of Directors of Alcentra has overall responsibility for the Corporate Risk Management framework and is supported in the effective deployment of the Framework by its delegated Committees.

There are four key elements to the Operational Risk Management Framework:

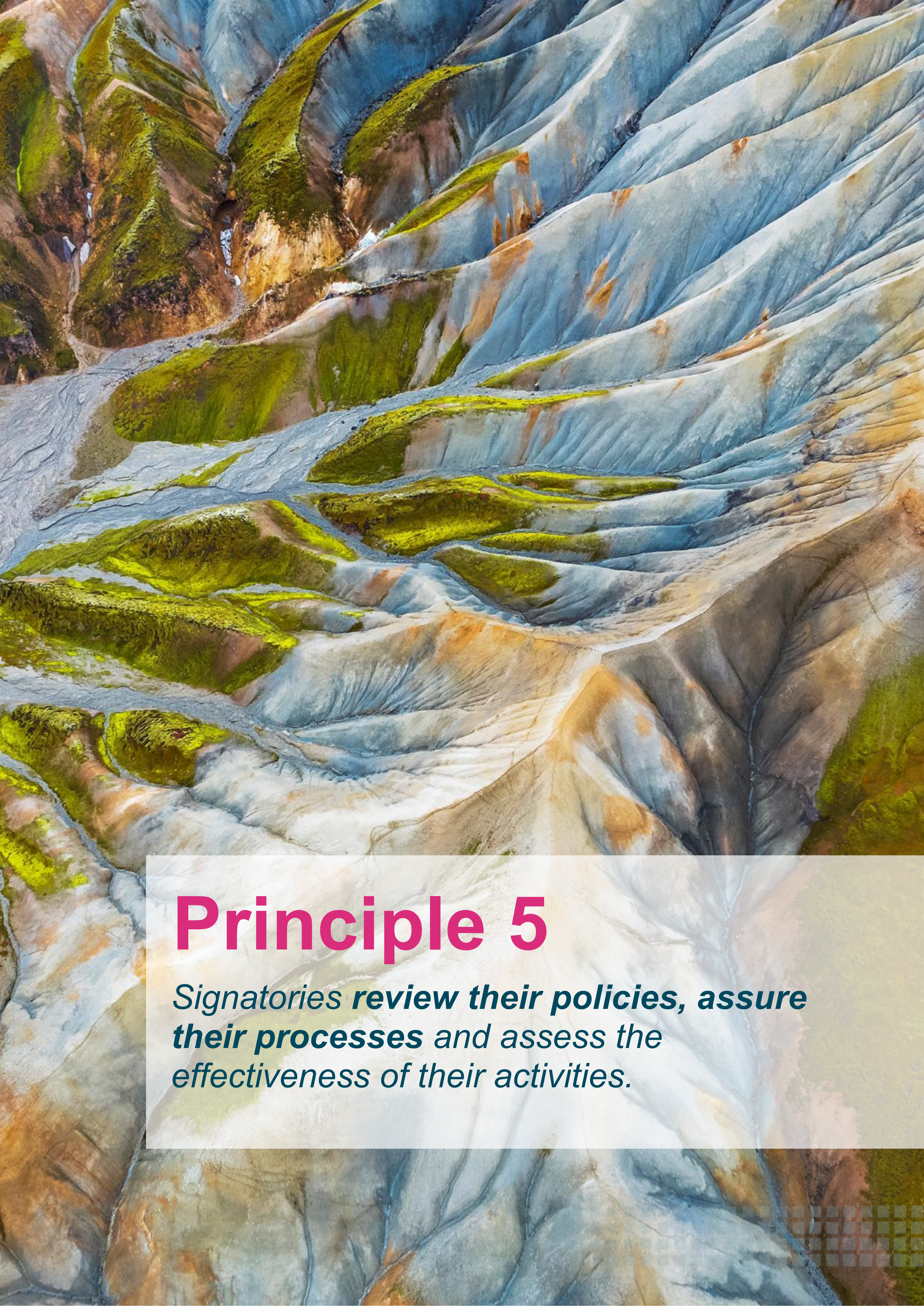
I	Risk Identification – Periodic risk assessments; analysis of risk events; scenario analysis; financial analysis; and understanding market practice
II	Risk Assessment & Measurement – Qualitative and quantitative measurement of risk; and determination of risk capital
III	Risk Management & Mitigation – Implementing control and process enhancements in response to elements 1 and 2
IV	Monitoring & Reporting – Escalation and oversight, including tracking the reporting of Key Risk Indicators against Board-approved risk appetite

We continuously evolve and adapt our risk management strategies, as and when necessary. The three lines of defence strategy can be summarized, as follows:

I	First line of defence - Business departments responsible for performing activities including the design, implementation and execution of tasks and associated controls
II	Second line of defence – Compliance and Operational Risk – responsible for advising on and testing the effectiveness of implemented controls
III	Third line of defence – Internal Audit – report to the Board on the Firm's overall control environment

All members of staff must adhere to the Operational Risk Management Framework in the performance of their roles and responsibilities – and to identify and escalate – where any control gaps are identified. If there are any errors of process detected, employees must immediately report this to Operational Risk.

Alcentra's Compliance team actively review forthcoming regulations and advise the business on any changes that could influence the firm. For example, the team has been closely following the various proposals under the European Commission's Sustainable Finance Disclosure Regulation (SFDR) and the FCA's new rules on climate-related disclosures (TCFD) and UK FCA Sustainable Disclosures Regime for asset managers. Our Head of EMEA Compliance Advisory, who is a member of the ESG Committee, provides regular updates on relevant regulatory developments to the Committee.



Principle 5

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

Review and assurance

Alcentra has established a Responsible Investment policy to guide our investment decisions and stewardship activities. We regularly review our policies and procedures and conduct audits to ensure that they are adequately implemented and effective. For example:

- The ESG Committee meets at a minimum on a quarterly basis to review progress in the implementation of the firm's responsible investment strategy. The ESG Committee is advised of investments in issuers that are deemed to pose high ESG risks, which have been discussed at the Investment Committee.
- The ESG Committee reviews and approves Alcentra's Responsible Investment policy. Amendments to the policy are proposed by the responsible investment team, which are presented to the ESG Committee for approval. This policy was updated in May 2022. As part of the policy revisions, we broadened the scope of the exclusions criteria and outlined our approach to assessing ESG factors as part of our investment process.
- The ESG Committee is responsible for approving any updates to Alcentra's ESG risk framework, including the tools and data sources used to assess issuers including: i) materiality matrix, ii) ESG and Climate Checklist; and iii) Climate Risk tool. The tools were presented and approved by the ESG Committee before their implementation.
- Alcentra has adopted criteria for excluding issuers from our investment universe. The exclusion criteria is outlined in our Responsible Investment policy. In 2021, the scope of our exclusions was broadened, and our internal controls were tightened. Commencing in 2023, the responsible investment team will conduct a review of our holdings on an annual basis to ensure that we are in compliance with our policy. We conduct primary and secondary research of companies' activities to ensure compliance with the policy. The ESG Committee oversees our exclusions. Any revisions to the exclusion criteria are presented and approved by the ESG Committee.
- There is close collaboration between the responsible investment team and our different investment teams to ensure ESG factors are incorporated into our investment process. Credit analysts are responsible for assessing and summarising the main ESG risks faced by issuers leveraging Alcentra's ESG tools, and these findings are presented to the relevant Investment Committee. In addition, the responsible investment team keeps track of all new ESG assessments and coordinates interaction with the ESG Committee; for example, if an issuer is deemed to pose very high risks and there is a need for further assessment from the ESG Committee.
- As a signatory to the PRI, we submit an annual report summarising our main responsible investment activities. Going forward, the PRI report will be presented to the ESG Committee and approved by the Head of Responsible Investing. The external assessment of our approach to responsible investment helps inform our sustainability and stewardship practices and disclosures. As part of the assessment of our 2021 PRI report, we received the following scores:

  Investment & Stewardship Policy: 73 (★ ★ ★ ★) – Outperform PRI Median (~60%)

  Direct – Fixed Income – Corporate: 96 (★ ★ ★ ★ ★) – Outperform PRI Median (~62%)

  Direct – Fixed Income – Securitized: 5 (★) – Underperform PRI Median (~55%)

  Direct – Fixed Income – Private Debt: 86 (★ ★ ★ ★) – Outperform PRI Median (~67%)

  Direct – Fixed Income – Structured Credit: 0 (★) – Underperform PRI Median (~7%)

  **It is important to note that the 2021 scoring methodology has changed to reflect the new PRI Reporting Framework and is incomparable with scores from previous PRI. Further information is disclosed in the 2021 UN PRI Assessment Report for Alcentra and the UN PRI Alcentra Public Transparency Report. The PRI has delayed reporting due to reconfiguration of the reporting procedure. As such, we do not have updated scores, which we believe will be materially improved.*

As further discussed in Principle 9, we have been working to address the historical areas of underperformance. Throughout the course of 2022, significant efforts were made to strengthen the Structured Credit and Securitized strategy's responsible investment approach. The key developments with regards to the Structured Credit ESG investment process include the following: the introduction of an ESG exclusion policy (for primary purchases within a dedicated fund); enhanced engagement with CLO Managers and additional ESG analysis and due diligence of CLO Managers, focused on those where we hold the largest exposures across the Structured Credit platform.

Alcentra's Stewardship Report is reviewed and approved by the ESG Committee and the Board of Directors. Alcentra is subject to internal audits related to responsible investment to ensure that our policies and processes are fit for purpose.

Alcentra is required by regulation to ensure that any marketing materials remain consistent and do not contradict any of the firm's actual approaches to integrating ESG factors into the management of client portfolios or firm-sponsored investment vehicles. As such, Alcentra has in place standard descriptions regarding the integration of ESG risks within its portfolio management processes and these are consistent with any pre-contractual disclosures that are provided in client and investment vehicle literature. All ESG-related disclosures (including marketing material, website postings, press announcements etc.) are approved by the firm's ESG Committee.

Investment Approach

Principle 6

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

Client and beneficiary needs

Alcentra is an alternative asset manager with an institutional client base. Our clients are the focal point of the business. We control individually managed accounts and institutional funds and invest primarily in European and North American markets. We have over $35 billion of assets under management (AUM) and global expertise in Senior Secured Loans, High Yield Bonds, Private Credit, Structured Credit, Special Situations and Multi-Strategy credit. Alcentra's client relationship management team is composed of experienced and dedicated professionals that work to serve our clients' best interests and needs. Our Investor Relations team includes a dedicated client Relationship Management team who work directly alongside our investment teams, wholly focussed on serving clients' needs.

We will

- Focus on the financial outcomes that matter to our clients
- Be their investment allies: working tirelessly to overcome their challenges
- Engage with their individual needs, responding with the right solution not just the easiest
- Elevate their experience by matching the right people, advice and expertise to their desired outcomes

We collaborate with clients to suit their specific responsible investment needs. For example, some of our clients have separately managed accounts (SMAs), which may have specific ESG language in the investment management agreement (IMA) and/or side letters, for example, specific ESG exclusion criteria. We utilise a rigorous approach to ensure that we abide by the aforementioned criteria through internal system control guidelines and measures with our internal CRM system.

Alcentra continuously seeks feedback from investors on our activities. For example, we aim to understand i) key ESG information requirements; and ii) how our product offering can be best aligned with their expectations on stewardship and responsible investment. Over the course of 2022, Alcentra responded to 115 dedicated ESG requests for information. We receive direct queries from our clients, as well as from financial consultants who advise clients. Although our ESG requests come from clients and consultants across the globe, in 2022, 75% of enquiries came from UK-based investors.

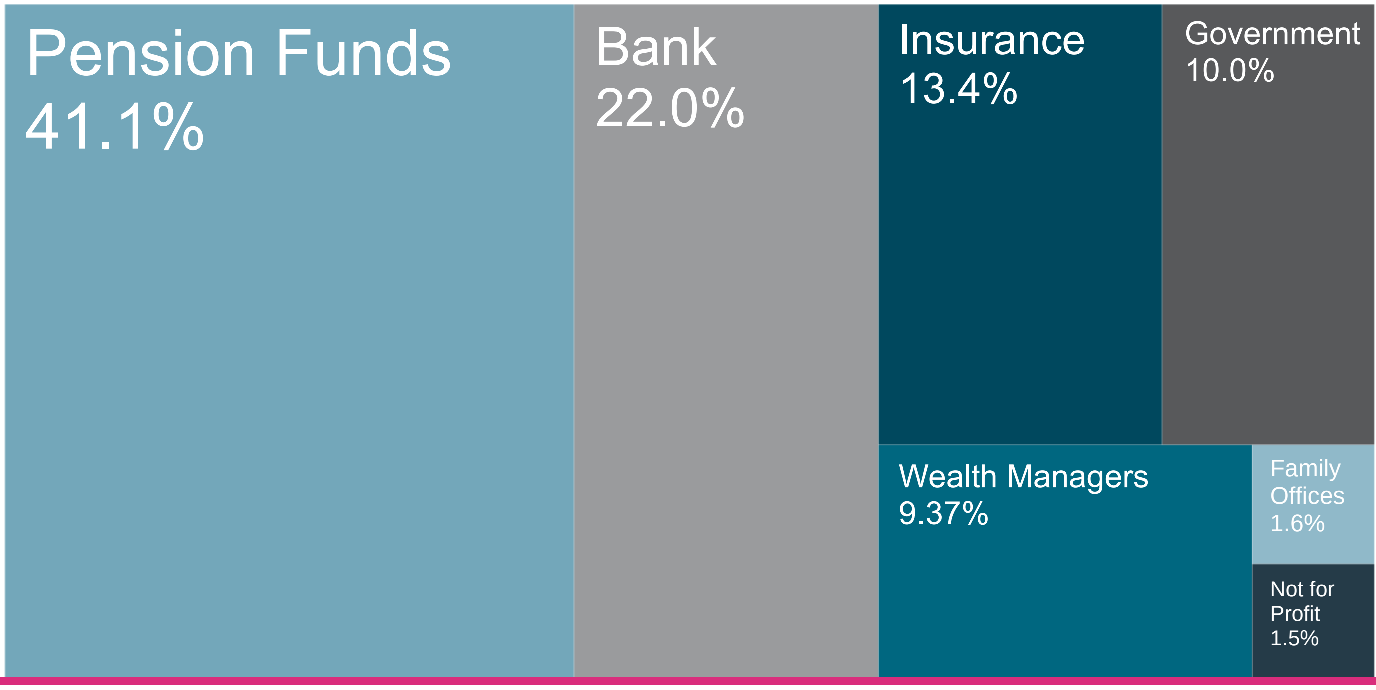
Some key topics of interest for our clients and consultants included:

- ESG Policy at firm level
- ESG client reporting
- ESG due diligence approach and exclusions
- Climate change data of the portfolio and exposure to fossil fuels
- Business ethics considerations
- Cybersecurity policies, training and data loss mitigation practices
- Implementation of the TCFD recommendations
- Stewardship activities / engagement examples
- Approach to voting

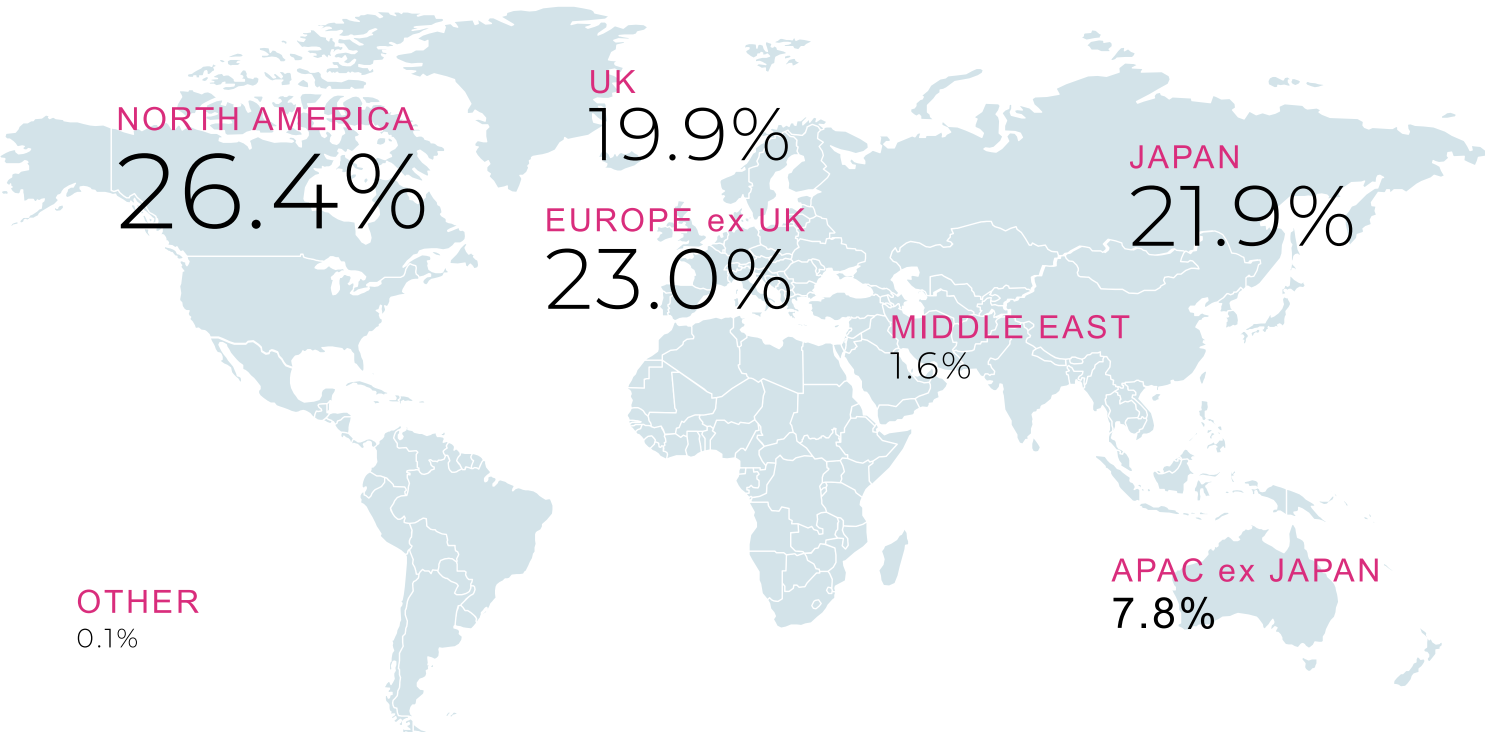
In 2022, the client relationship management team completed 30 dedicated ESG questionnaires, in addition to general questionnaires that contained specific ESG questions.

Alcentra's Client Base[1]

by Investor Type



by Geography



[1] As of 31 December 2022, percentage AUM excludes CLOs.

As an example of our focus on reporting, Alcentra began producing a quarterly ESG report on our private credit business in 2021 and has continued to enhance the reporting quality based upon data availability and client interest. The team receives a wide variety of queries from clients, so the quarterly report provides insight into our stewardship activities – which may include engagement examples, ESG-related declines and data from ongoing dialogue with companies. Our private credit engagements are tracked and monitored following the Investment Consultants Sustainability Working Group (ICSWG) engagement categories. Annually, within the private credit ESG Report (which commenced in 2022), Alcentra provides fund-specific reporting to clients – disclosing approximately 50 pertinent ESG data points. A subset of these data points include: GHG emissions, carbon footprint and a selection of PAIs (as highlighted by SFDR regulations).

As part of our assessment of the effectiveness of our stewardship activities, we take on board feedback from our clients and financial consultants. For example, we received feedback from one of our clients following an assessment of our ESG integration process and commitments. The client welcomed the robustness of our ESG integration process, which included the consideration of material ESG factors. The assessment highlighted the importance of enhancing our reporting capabilities and recommended providing further evidence on our climate risk assessment process.

Key outcomes and effectiveness

- Our investment teams operate with a high degree of autonomy and are afforded the opportunity to utilise their own unique investment approach, as is best suited to their team's operational strategy.
- Investment horizons will vary widely by strategy.
- Moving forward, we will seek to incorporate further thematic stewardship projects, as uniquely relevant to each strategy and disseminate the findings to investors.
- Entered partnership with Novata early 2023 to capture ESG data cohesively. Will continue to collaborate with the aim of enhancing reporting and data standardization.
- Our reporting on responsible investment continues to evolve, and we benefit from clients, consultants, and standard setters' feedback as we seek to enhance our disclosures.

Principle 7

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

ESG exclusion criteria

As a starting point, our analysts identify whether a company has exposure to activities that fall within our exclusion criteria, as defined in our Responsible Investment policy. We believe some corporate activities and behaviours are not compatible with our business values and responsible investment philosophy. In 2021, we expanded our ESG exclusion criteria which apply to all our investment strategies[1], with the exception of Structured Credit, where we primarily invest in Collateralised Loan Obligations (CLO) managed by other firms, and where the tranches are purchased in the secondary market we are unable to change the eligibility criteria of the CLO or the CLO managers' ESG policies.[2] As further discussed in Principle 9, the Structured Credit ESG investment process includes several nuances from other strategies across the firm. However, the Structured Credit team has been focused on enhanced due diligence of CLO Managers.

We exclude issuers that derive any revenue from:

- development, production or sale of controversial weapons. Alcentra defines controversial weapons as biological weapons, chemical weapons, nuclear weapons, depleted uranium weapons, incendiary weapons, cluster munitions and antipersonnel mines.
- production or sale of cannabis for recreational use
- payday lending activities. Payday lending refers to small, high-cost short-term consumer loans as defined by the UK's Financial Conduct Authority.

We also exclude issuers that derive more than 10% of revenues from:

- production or sale of tobacco or tobacco products
- production, operation and/or distribution of adult entertainment

Alcentra has also established exclusion criteria for certain fossil fuel activities. We exclude:

- issuers that derive 10 percent or more of revenue from thermal coal mining
- issuers that derive 10 percent or more of revenue from oil sands

ESG Integration

Alcentra takes into account its responsibilities towards its stakeholders, clients, shareholders and employees with regards to investment and performance. Our ESG integration process emphasises the importance of assessing material risks at both sector and issuer level. To that end, we have developed a suite of proprietary tools to support the integration of ESG factors into the investment process, including: i) sector materiality guide; ii) ESG and climate checklist; and iii) climate risk tool. The aim of the tools is to provide our investment teams with a consistent framework to assess material ESG risks and to help inform our engagement activities.

[1] No new investments have been made in companies that fall within the scope of the exclusion criteria. Through our screening process, we identified two legacy illiquid holdings that fall under the scope of the exclusion criteria. We have no intention of extending any further financing to these companies.

[2] In our Structured Credit business, we request ESG exclusionary language when purchasing Collateralised Loan Obligations (CLO) tranches in the primary market, where Alcentra has more influence over the loan eligibility criteria.

Table 2. Alcentra's key ESG tools

Sector Materiality Guide	As a starting point, credit analysts use a sector materiality guide to identify the ESG factors that could have a significant impact on issuers according to Alcentra's industry classifications. The guide helps inform issuers' ESG scores and provides direction for analysts on key factors to focus on during stewardship efforts.
ESG & climate checklist	Alcentra's ESG & climate checklist was implemented in 2021 to provide investment teams with a consistent approach to assessing issuers across sectors and markets. Analysts use the checklist to capture relevant information on climate change, environmental, social and governance risks for new issuers. Issuers' ESG scores are used to construct and manage portfolios, as well as to inform stewardship activities. Our ESG scoring system relies on the assessment of more than 20 qualitative and quantitative indicators across each of the pillars. To inform issuers' scores, we rely on corporate disclosures and leverage our credit analysts' in-depth knowledge of their companies, sectors and markets, as well as third-party data. In addition to having individual pillar scores, analysts rate the overall ESG risk profile of the issuer. We use a 1-5 risk scale as defined in the table below. If an issuer scores 4 or 5 at a pillar or aggregate level, the Investment Committee will deliberate the potential risks to determine whether we are comfortable holding the issuer. If it is decided that we are, the ESG Committee will be advised. If an issuer is deemed to pose a very high risk (5) at an aggregate level, it will be excluded from the portfolio. **Scores at pillar level**

Score	Risk Scale	Action
1	No risk	No action
2	Low risk	Monitor
3	Moderate risk	Inform relevant Investment Committee during credit approval process
4	High risk	Escalate to ESG Committee/focus issue at relevant Investment Committee
5	Very high risk	Exclude from portfolio and/or prevent further purchases

Analysts are required to complete the checklist and include it in the investment paper presented to the relevant Investment Committee.

Climate Risk tool	Alcentra's Climate Risk tool was developed to support the assessment of companies' exposure and management of climate-related risks. We concentrate on sectors highly exposed to climate-related risks, either through their operations or value chains. We gather relevant climate metrics on our issuers, including companies' greenhouse gas emissions (GHG) across Scope 1, Scope 2 and Scope 3. Where companies do not disclose this information, we use third-party estimated GHG emissions data. In addition, analysts also assess how well-prepared issuers are to manage the climate transition; for example, by considering companies' climate transition plans and targets. The tool calculates a climate risk score, which feeds into the ESG and climate checklist.

Monitoring

ESG risks and scores are dynamic. The assessment of ESG factors is part of the daily credit monitoring process, where analysts assess risks related to issuers. We monitor companies on ESG risk factors and update risk ratings accordingly.

As part of our regular company dialogue, analysts engage with issuers on ESG matters at least annually. Engagement may be more frequent with issuers exposed to higher ESG risks or where company-specific or macro risks are developing. We provide further details on our approach to engagements under Principle 9.

Private credit

Alcentra has the ability to exert influence over borrowers as in many cases, we may be the sole lender. In combination with our well-established relationships, we engage with companies to ensure their practices are aligned with Alcentra's overarching responsible investment principles. The previously described assessments of ESG risks through the internal ESG Checklist process, alongside monitoring of credits, are utilised across strategies (with some nuances) firmwide. Notably, the private credit strategy offers a unique opportunity to exert additional influence on borrowers, as the strategy offers more granular insight and closer relationships with portfolio companies, given the majority lender position in capital structures.

In 2020, we implemented an ESG questionnaire to assess and monitor companies' exposure to ESG factors. The questionnaire is sent out to companies in our private credit portfolio on an annual basis. Borrowers are required to provide qualitative and quantitative information regarding their sustainability strategy and approach to mitigating and managing key ESG risks. This information is used to track borrowers' ESG risk profile and to monitor portfolios. In 2021, the response rate to our ESG questionnaire was about 90% - in 2022, the response rate was 94%. We will continue to collaborate with companies that have not been able to provide ESG data to support them in their journey of measuring relevant metrics for their business, as well as in the development of their sustainability strategies. As a component of this, in 2023, the team incorporated the Novata platform to aid the collection of ESG data within the private credit business.

As part of our ESG integration efforts, and where the opportunity has arisen in more recent negotiations – which have examined our latest Article 8 private credit investment vehicle – 63% of investments now have language integrated into investment documentation relating to ESG margin adjustment mechanisms. The margin adjustment mechanism is built around ESG criteria, and the borrower's performance will result in a reduction to the margin depending on how it performs against the defined KPIs. We leverage this mechanism to incentivise borrowers to improve their performance on relevant sustainability matters.

ESG-margin ratchets – Laser treatment device manufacturer

We worked with a private credit portfolio company to introduce an ESG margin ratchet mechanism for a med-tech firm focused on the production and distribution of laser treatment devices used for a range of medical and aesthetic procedures from kidney stone to tattoo removal.

The ESG criteria introduced in the margin ratchet mechanism focused specifically on key areas of the business. The margin adjustment mechanism allows the borrower to reduce its interest rate burden, if predetermined KPIs are met.

There are three KPIs, as follows:

I. The number of Refurbished Products vs. baseline.

II. The number of violations of the Restriction on Use of Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive 2011; and

III. The number of permanent employees of the Group willingly choosing to resign and leave their position of employment within the Group divided by the average number of permanent employees of the Group.

We introduced these incentives to encourage the business to adopt more sustainable and accountable business practices, as we believe the KPIs will help create value and reduce credit risk. We will be monitoring the company's performance on the above metrics and require the company's Sustainability Report to be delivered within 30 days of the Annual Financial Statements, alongside relevant director sign-off.

European retail business – *ESG strategy*

Objective:

An Executive Director from Alcentra's Global Research team was appointed as a Board Observer to the Board of Directors of one of our portfolio companies, which had faced some challenges following the COVID-19 pandemic. The company needed financial restructuring. Through his involvement on the Board, the Executive Director encouraged alterations and enhancements to the structure, composition and functioning of the Board, in an effort to improve the overall governance functioning of the company.

Outcomes:

We felt it was particularly important to ensure that there was independent Non-Executive directors and a Chairman on the Board, where there had not previously been. Additionally, we felt it was important to ensure that there was significant and appropriate industry experience to the Board composition. We were instrumental in the enhancement of the portfolio company's Board through the push for independent representation – through the selection of two qualified individuals – and further influencing the dialogue and focus on strategic discussion, rather than Board meetings focusing predominantly on the present state of operations.

Key outcomes and effectiveness

- Our liquid credit ESG engagement tracker has facilitated the monitoring and assessment of our interactions with portfolio companies. This tool is utilized to track relevant metrics to measure the effectiveness of our stewardship activities. The data from our engagement tracker is utilized to support portfolio monitoring, in addition to providing meaningful insights on our stewardship activities to our clients.
- We will continue to enhance our tools to enable us to gain better insights into companies' ESG risk exposures and business practices. We intend to assess issuers on an annual basis to be able to show year-on-year changes.
- In 2022, we expanded our review of third-party data sources used to assess and benchmark companies across our responsible investment focus areas through continued work with our ESG assessment framework. A continued area of focus is the increase in coverage of climate data across all of the companies held in our portfolios.
- As part of the enhancements to our ESG questionnaire sent to the companies in our private credit portfolio, we have placed further emphasis on the disclosure of quantitative metrics in line with the latest industry standards and partnered with an external data platform to assist in the data capture and reporting process.

Principle 8

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

Service providers

We continuously strive to enhance the research and data we use to inform our investment decisions. As part of the credit analysis, investment teams are required to assess the ESG risk profile of issuers. To do this, we rely on a variety of sources, including company-reported information, research from sell-side banks, data from specialist firms and third-party ESG data providers. While coverage from third-party service providers in our investment universe is limited relative to other asset classes, the information provided is useful, in particular to obtain sector-level insights.

The responsible investment team onboarded ESG data from a selected party to our internal database and further assessed several third-party ESG data providers in 2022. The overarching goal of external data is to complement our in-house research and database and to provide a holistic and comprehensive view of ESG risks and opportunities. Our review process of external data providers consisted in understanding the metrics and methodologies used to assess companies, as well as reviewing their coverage of the sub-investment grade credit market. The review of ESG data providers was completed towards the end of 2021, and the ESG Committee approved Alcentra's preferred data provider.

We have continued to build and foster relationships with external data providers to provide feedback on an ongoing basis. We have found that this has been immensely helpful when identifying and querying data points that may have been inaccurate or if we observed gaps in the data. We recognise this is a rapidly evolving space, so we will continue to explore other third-party providers to further enhance our ESG database, for example, on climate, biodiversity and human rights' data.

As a credit manager, voting is not material within the context of our activities. Therefore, we do not use proxy voting providers. We explain our approach to voting in more detail under Principle 12.

Structured credit

ESG is integrated across the firm, and whilst we share a common philosophy across strategies, there are certain nuances in how strategies adopt this philosophy. In our Structured Credit CLO investments where we primarily invest in CLO tranches actively managed by other firms, and where the tranches are purchased in the secondary market, we are unable to change the eligibility criteria of the CLO or the CLO managers ESG policies.

In our Structured Credit EU CLOs, we aim to understand how the EU CLO managers we invest in consider and monitor ESG risk; for example, their governance structure, responsible investment policy, ESG assessment framework, risk tolerances and exclusion criteria. As part of our monitoring and assessment process, we send an annual ESG questionnaire to CLO managers to have a better understanding of their approach to responsible investment and detailed information on their ESG integration process. CLO managers' responses will be tracked in our ESG engagement database. The insights from the questionnaire will also be used to identify opportunities for further engagement with CLO managers; for example, where their responsible investment practices do not meet our expectations.

Throughout the course of 2022, significant efforts were made to strengthen the strategy's responsible investment approach. The key developments with regards to the Structured Credit ESG investment process include the following:

-ESG analysis and due diligence of CLO managers, focused on those where we hold the largest exposures across our platform

-We assess the governance and control processes of the CLO manager.

-We confirm whether the CLO manager is a signatory of the UN PRI; and

-We send out an annual ESG questionnaire to a substantial proportion of CLO managers to get a formal update on their ESG processes and policies

-Improved engagement with CLO managers. As part of the strategy's focus on engagement, the Structured Credit team promotes Alcentra's ESG expectations through conversations with every CLO manager that we invest with on a regular basis. The regular calls provide an opportunity to receive updates on underlying loans, the manager's platform and to engage with managers on their ESG policies.

The introduction of an ESG exclusion policy:

In every primary deal that we participate in across our Structured Credit platform, we request wording in the CLO documentation to be included that would prevent CLO managers from buying assets with exposure to certain industries including weapons, illegal drugs, tobacco and cigarettes, adult entertainment, and prostitution. Most managers are quite constructive in including this wording in the CLO documentation.

Key outcomes and effectiveness

- Our collaboration with the European Leveraged Finance Association (ELFA) is helping to advance more standardized disclosures in the CLO industry.
- The vast majority of European CLO managers have developed their own ESG investing and monitoring framework. We believe this development is positive for the market, and combined with our continued engagement with CLO managers, will help us and the wider industry drive further ESG integration across investment strategies.

Engagement

Principle 9

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

Stewardship outcomes

As stewards of our investors' capital, we find that engagement is the most effective approach to understand the ESG risks and opportunities associated with our investments. Our responsible investment principles guide our stewardship efforts, and we take an active role in engaging with existing companies in our portfolio, as well as with new issuers to better understand risks, improve disclosures and to encourage issuers to act in a sustainable manner.

We benefit from our scale and tenure in our markets, which provides access to company management teams, sponsors, and other key stakeholders. Our strong relationships provide us with the opportunity to meet with companies at conferences, field trips and road shows. Depending upon the strategy, our engagement efforts will be slightly different and more or less involved, according to the nature of the relationship with the company or the management team. For instance, our Direct Lending and Special Situations teams may have a much more involved relationship with the company and have the ability to exercise additional influence – particularly, if an Alcentra employee holds a seat on the Board of the company.

As previously indicated, as investors in the sub-investment grade credit market, Alcentra faces challenges related to availability and transparency of ESG data from issuers. Expectations surrounding the scale and effectiveness of engagement are a consideration across all asset classes and as noted above, there are specific nuances, including within the structured credit investments.

Our engagement objectives include:

- Uncovering information on companies' ESG risk exposures and management practices.
- Monitoring issuers' exposure and performance.
- Addressing concerns related to governance and management practices, performance and/or controversies.
- Encouraging disclosure aligned with internationally recognized standards; and
- Promoting the adoption of sustainable business practices.

We engage with management teams, technical experts and, where relevant, board members, shareholders and/or arranging banks. Depending on the nature of our engagements, these may take the form of one-on-one company meetings, investor group discussions and/or written exchanges. The decision to focus on a particular strategic engagement typically occurs based upon the potential urgency of the dialogue. For instance, if a controversy arose, we would work to speak directly with the relevant parties – as soon as possible – either in a face-to-face meeting or on a call with management.

Where possible, engagements focus on topics that are material to each business. We implemented an engagement log in 2021 to begin tracking our dialogues with companies and have continued to utilise this tracking tool throughout 2022. We monitor companies' responses and set internal KPIs to track progress over time. Although it can sometimes be challenging to attribute changes in companies' practices to our engagements, we see stewardship as integral to imparting positive change and reducing risks related to our investments.

We determine our engagement priorities on a case-by-case basis but may consider such additional factors as the investment exposure, stakeholder concerns and geography. We have previously focused on thematic engagements with carbon-intensive sectors, such as the oil and gas sector. As we consistently monitor headlines – we will engage with issuers that may be subject to an incident requiring further information. Similarly, we will proactively engage with companies following on from an issue that may have arisen from a competitor's misstep to provide our portfolio companies the opportunity to learn and potentially mitigate similar risks.

In the following section we present examples of some of the ESG engagements conducted throughout the course of 2022.

Engagement case studies

Global travel / leisure company – *climate change and environmental risks*

Objectives:

We engaged with the company to better understand their long-term climate and environmental strategy, through upgrades to their fleet, with a focus on the hybridisation of their engines.

Outcomes:

We engaged with the management team, who provided assurance that they were focusing their ESG strategy on fleet upgrades through the incorporation of hybrid engines and keeping ahead of regulatory tightening. As the company is based out of the Nordics, there is a strong focus on ESG considerations, and the management team has been transparent and forthright with information requests and changes to fleet optimisation. The company will be further building out their emissions mapping and reduction efforts and have advised that they will keep us informed of any significant changes and improvements.

Building product distributor – *cybersecurity risks*

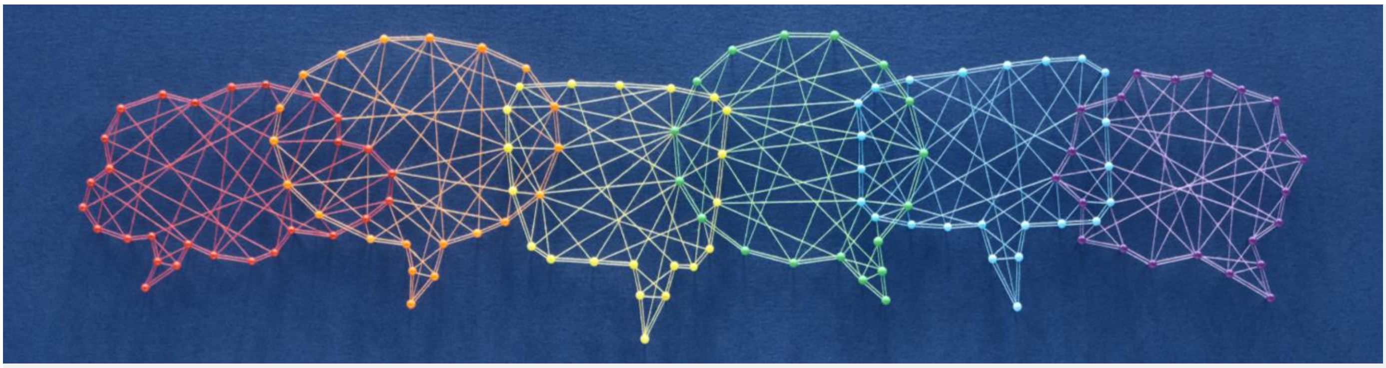
Objectives:

We engaged with a company that distributes building products following a cybersecurity ransom incident to understand its impact and the measures to be implemented to mitigate the risk of future incidents and losses.

Outcomes:

Our analyst engaged with the company's management to understand the hacking attack which required ransom to be paid to allow the company access to their own billing systems. The company understood the severity of the attack and the potential for future incidents. Consequently, the company overhauled their cybersecurity policy and implemented training measures for employees. Our analyst was comfortable with the company's approach, transparency, and diligence. Importantly, the prompt response and focus on cybersecurity allowed for a lessened impact in another geography, on a subsequent cyber-attack, due to the enhanced processes and training in place.

Marketing Insights business – *ESG Strategy*



Description:

Alcentra has been the shareholder of a marketing insights company since 2020. As a result, ESG has been implemented as a key pillar of the Group's strategy.

Engagement activities:

As a minimum ESG is a board agenda at least quarterly, though pertinent discussions around a variety of ESG topic often come up more frequently, given it has been clearly communicated to the Board it is a priority for Alcentra. Discussion topics throughout 2022 have included:

- Cybersecurity; the Group has been targeted by several cyber-attacks, and as such, has implemented significant upgrades to their IT systems

- Carbon reduction goals; there has been an accelerated transition to a digital strategy and emphasis on flexible remote working

- Employee engagement; consideration given to Gen Z and their attitudes to the workplace; encouraging pro-nouns on email signatures (CEO leading by example)

- ESG Rating; under Alcentra's ownership the Group's EcoVardis rating has been upgraded from Bronze to Silver

-Community; Young Adult Institute Event, whereby the CFO ran training/budgeting workshops

Outcomes: We have observed a significant improvement in the company's ESG strategy – with an emphasis on socially focused considerations. As an example, over the period of our engagement, charitable community hours donated by employees increased to 315 hours in 2022, as compared to 167 hours in 2021. Within their EcoVardis feedback, it was highlighted that further consideration could be given to the Group supply chain policy. Subsequently, the investment team engaged the Alcentra Head of ESG to further discuss with the company to determine material considerations for review within the supply chain, alongside a focus on areas for improvement for the company's ESG Reporting framework. Peer supply chain policies were provided to offer insight into best practice. Further assistance and collaboration to be provided, as and when needed.

Building materials producer – *climate change and environmental risks*

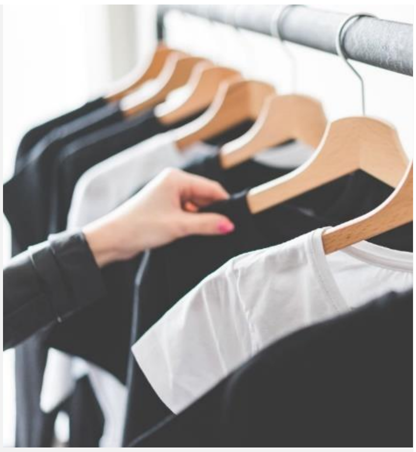
Objectives:

We have engaged with a company that produces building materials mainly for residential construction, to better understand the incorporation of ESG factors within their operating model to further assist in our investment decision.

Outcomes:

Our analyst engaged with the company's management and Investor Relations team to better understand the steps that they are taking to manage and mitigate environmental and climate-related risks – specifically with a focus on minimising their reliance upon external fossil-fuel driven energy providers and to incorporate principles of circularity and waste reduction. The company has provided clear information surrounding the incorporation of wood waste (a biproduct of their offering) through utilisation in their Biomass Plant, which simultaneously assists in reducing external reliance on energy providers. Furthermore, the company has provided details as to their energy consumption. This strategic focus on circularity provides both an environmental and financial advantage given the recent volatility surrounding exposure to energy prices.

European retail business – *ESG strategy*



Objective:

Alcentra's Co-Head of Special Situations was appointed to the Board of Directors of one of our portfolio companies. Through his role as a Board member, he has made a number of influential and continued engagements to directly support the company as it made alterations and enhancements to existing governance considerations – specifically surrounding internal reporting and control measures in place, whilst further building upon the company's existing ESG strategy.

Outcomes:

The enhancement of the ESG strategy has been a key consideration for the company as it works to illustrate their Sustainability journey to their customers. Commencing in January 2022, the company:

- Began reporting annually on sustainability progress.
- Set a target to become climate positive by 2040.
- Placed an emphasis on inclusive hiring with a focus on community involvement and charitable giving; and
- Began setting targets for waste and energy reduction initiatives to assist in the transition to a low carbon economy.

The company is committed to continual improvements on their ESG journey – specifically focusing on the supply chain and ensuring that human and labour rights are adhered to. Alcentra's Board representative brings a wealth of experience from other Boards from a diverse portfolio of companies. He has played a key role in influencing and implementing changes through enhanced communication, monitoring, and reporting.

Childcare provider – *social risks*

Objectives:

Alentra engaged with a childcare provider to better understand the safety training and initiatives for their staff, alongside insight into the issues surrounding staff shortages. Additional engagement sought to better understand how the company ensures safeguarding of children – particularly with an inquiry into the staff selection process and appropriate carer-to-child ratios.

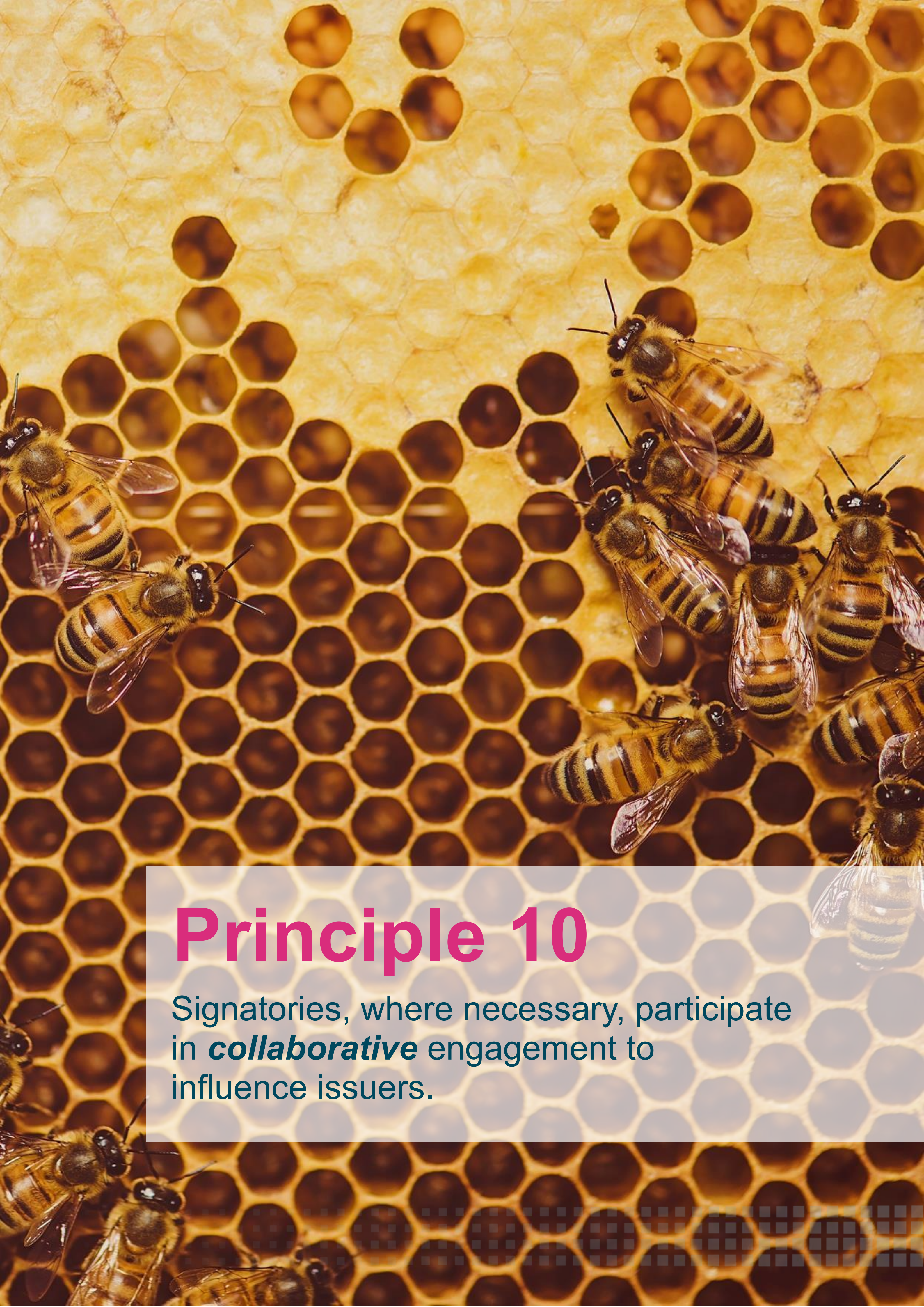
Outcomes:

Our analyst engaged with the company's management to understand the training and initiatives in place to ensure that staff are appropriately trained to nurture and protect the children in their care.

The management team advised that they continually work to enhance the premises through refurbishments to ensure safety (for example, through usage of doorstops to prevent fingers from getting trapped). With regards to safety training for staff, the company signed an agreement with UNESCO to provide educational upgrade opportunities and they also work alongside a training facility in France which provides accreditation (a diploma) to assist with staff sourcing concerns. This training assists the company, as they can train inexperienced staff efficiently.

Our analyst gained comfort in the fact that the company has implemented a digital solution to track and ensure that the appropriate number of staff are working with children and carers are not left alone with children.

In addition to engaging with the management team, our analyst has reached out to several independent sector experts for a holistic understanding of the sector-related challenges and to verify what management told us regarding their efforts and commitment to safety and wellbeing. These experts also help us better understand the relevant regulatory environment and upcoming changes, which will have an impact on safety requirements and staffing issues in the entirety of the childcare sector.



Principle 10

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

External collaborations

The team at Alcentra is committed to serving our clients – and working collaboratively with a wider group of stakeholders – to assist in making a transformational change through engagement and collaboration. Alcentra collaborates and engages with peer investors and other stakeholder groups to improve market standards and exchange best practices as we work towards common goals. We participate in a range of external initiatives, as summarised in Table 3.

We became a member of the Institutional Investors Group on Climate Change (IIGCC) in 2021, the European membership body for investor collaboration on climate change. We advocate in support of their mission to enable the investment community to drive considerable progress by 2030 towards a net zero and resilient future. In addition, Alcentra became a signatory of the 2021 Global Investor Statement to Governments on the Climate Crisis. Alongside other 587 investors with around 40% of the world's AUM, we called on governments to act on the climate crisis.

Table 3. Examples of external collaborations

Organisation	Description
Principles of Responsible Investment (PRI)	Alcentra has been a signatory to the PRI since June 2018. We have signed the PRI "ESG in Credit Risk and Ratings Statement". This statement is a formal commitment to incorporate ESG into credit ratings and analysis in a systematic and transparent way by credit rating agencies and fixed income investors. Specifically, as fixed income investors, and as the primary users of credit ratings, we will seek to participate in dialogue and engage in collaborative initiatives with other investors and credit rating agencies to further efforts to integrate ESG. This helps ensure ESG risks are appropriately addressed in investment decision making.
The European Leveraged Finance Association (ELFA)	Alcentra is an active member of the European Leveraged Finance Association ("ELFA")[1], a professional trade association for investors in the European leveraged finance market. Our Head of Responsible Investing sits on the Board and the ESG Committee, and another portfolio manager sits on the Loan Committee. ELFA has been at the forefront of pressing the wider industry for improved ESG disclosure and standards. A key goal of ELFA's ESG committee is to create a framework for issuers in European leverage finance markets to promote transparency of disclosures required for investors to assess the underlying ESG risks in the market. We continue to work actively with arranging banks to facilitate company engagement and to make ESG factors a greater feature of their disclosures on any new issue. We contributed to several roundtable events with issuers, advisors, private equity sponsors and underwriting banks, highlighting the importance of disclosures on ESG matters. In addition, we contributed to ELFA's ESG factsheets, which seek to identify the most important ESG factors within each sector and the importance of their disclosure, for example: • CLO Manager ESG Diligence Questionnaire • General ESG Fact Sheet • ESG Fact Sheet – Debt Collectors • ESG Fact Sheet – Paper and Packaging • ESG Fact Sheet – Sector Agnostic • Guide for company advisers to ESG disclosure in leveraged finance transactions Members of our private credit team sit on the ELFA Private Debt Committee and regularly discuss pertinent ESG considerations in the private credit market. In 2021, we contributed to an insights paper called "The Growth of ESG in Private Debt Markets." More recently, members of the team have been engaging with discussions on the integration of the Sustainability Linked Loans Principles (SLLPs) within ESG-Linked Loans for Private Credit.
Investment Consultants Sustainability Working Group (ICSWG)	Alcentra's private credit team worked with the ICSWG via their membership with the ELFA Private Debt Committee to provide feedback on the ICSWG engagement activity reporting guide. This cross-industry collaboration aimed to ensure the relevance of the reporting guide for the private credit asset class and works to improve consistency and granularity of information provided to the ICSWG, to facilitate a better understanding of stewardship activities taking place across the industry.
Institutional Investors Group on Climate Change (IIGCC)	Alcentra became a member of the Institutional Investors Group on Climate Change (IIGCC) in 2021, the European membership body for investor collaboration on climate change. We advocate in support of their mission to enable the investment community to drive significant progress by 2030 towards a net zero and resilient future.

[1] European Leveraged Finance Association (ELFA). 2023. https://elfainvestors.com/`

We will continue to explore opportunities to expand our external collaborations across environmental, social and governance topics. A key focus area is to work with other investors to advance the standardization of ESG disclosures in the private sector. We previously initiated discussions with the ESG Data Convergence Project, which seeks to streamline the private investment industry's historically fragmented approach to collecting and reporting ESG data. We will explore the opportunity of participating in a private credit working group as part of this initiative, which seeks to enhance data disclosure and transparency in a traditionally opaque area. Further, the working group has an interest in disclosure of ESG Margin Ratchets to illustrate best practice across the market. Additionally, our Head of ESG has collaborated with the Loan Market Association (LMA) and the Loan Syndications and Trading Association (LSTA) in the initial research and development stages of ESG questionnaires and ESG margin ratchet principles, in the aim of working together to create industry-wide standards and best practices.

European retail business – *Collaborative ESG strategy and B-Corp Certification*

Objective:

Alcentra's private credit funds have been invested in the European retail business since 2014, and in their capacity as shareholders, since 2020. As the largest shareholder and through representation on the Board of Directors, we have been able to communicate effectively and collaboratively to encourage the company's evolving ESG strategy. Specifically, we have supported a number of sustainability initiatives and actively encouraged the company's B Corp certification application, amending the company's Articles of Association to include specific wording confirming the company's commitment to (i) stakeholder interests; and (ii) having a material positive impact on society and the environment.

Outcomes:

The enhancement of the ESG strategy has been a key consideration for the company which has developed its core business strategy to include a focus on sustainability, under three key pillars – product, planet, and community. Commencing in 2008, the company has continually sought to improve their focus on sustainability and since Alcentra took a position as a shareholder in 2020, the following initiatives have been implemented:

- 2025 Sustainability Targets launched.
- Became Carbon Neutral for FY 2020/2021.
- Signed the International Accord Health & Safety in the Garment and Textile Industry.
- Commenced tree planting in 75-year National Forest partnership in 2022.
- Achieved B-Corp Certification in 2023 following a rigorous B-impact assessment. The company is the largest UK fashion retailer to achieve B-Corp status. The certification reflects progress made across the Company's three-pillar sustainability strategy.

We are proud to collaborate with this portfolio company on their ESG journey, due to their continual improvements and commitment to material considerations across the entirety of their operations. Our positive working relationship and support has encouraged the company to further pursue their commitment to ESG.

Principle 11

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

Escalating stewardship activities

Engagements with issuers on ESG matters typically involve multiple interactions over a set period of time. These dialogues are conducted in close collaboration between the investment and responsible investment teams. Although we do not typically hold voting rights as shareholders, we may still be able to influence companies as a provider of capital. Alcentra believes that in order to observe meaningful changes in companies' governance and sustainability practices, we need to be i) effective at conveying our messages; and ii) allow sufficient time for companies to take on board our input. We also recognise that in some cases, our engagements may not result in the desired outcomes.

Alcentra maintains an ESG engagement tracker to capture and measure the effectiveness of our engagement activities. The engagement log is relied upon to track the progress of our dialogues and to identify the situations where we need to escalate measures; for example, by divesting or reducing our position. Escalation measures will depend on the scope of our engagement, the severity of the issue, the size of our holdings, the company's response to date and likelihood of enacting change.

The Investment Committee and ESG Committee participate in the monitoring of credits that pose elevated ESG risks. If an engagement with a high-risk issuer proves to be ineffective, the ESG Committee may make recommendations to the relevant Investment Committee on potential escalation measures, which depending on the asset class, may include a reduction in position on a particular credit, or, divesting entirely.

Network and Security Service Provider – *Governance*

Objective:

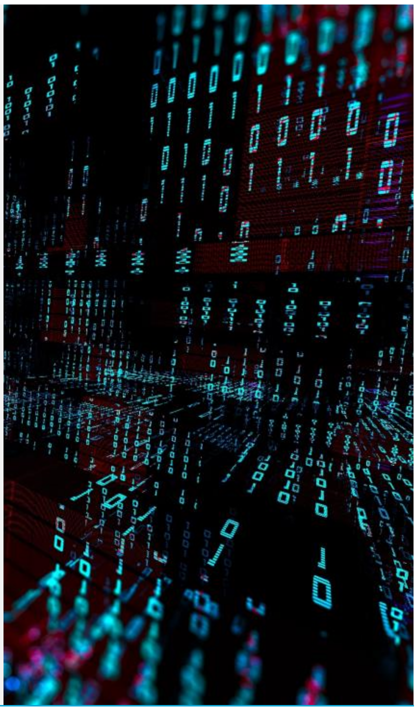
We engaged with the company to address governance concerns related to management oversight, with specific financial ramifications arising from accounting and auditing considerations.

Outcomes:

The company is a provider of managed network and security services to multinational organisations.

The company experienced accounting issues which resulted in delayed financial reporting, which raised concerns about governance and audit controls. We began reducing our position, but also engaged with the management team to gain further insight into these issues.

Despite several interactions with management, our analyst did not gain comfort that effective measures were being implemented to ensure that financial oversight was being dealt with appropriately. As our governance concerns were not addressed, alongside a lack of comfort with the management team and overall strategy of the company, we decided to ultimately divest from the company within our liquid portfolio.



Pharmaceutical Development Provider – *Governance*

Objective:

We engaged with a company held within our portfolio to address governance concerns related to insufficient, poor-quality data and inadequate transparency of information from management.

Outcomes:

The company is a provider of development and manufacturing services for pharmaceutical companies. Our analyst repeatedly engaged with the management team to gain further insight into several governance concerns, which we felt could be improved upon. Following poor operating performance, the company was downgraded by rating agencies. Although he spoke with management on several instances, our analyst did not gain comfort that the management team was addressing our concerns surrounding timely and transparent reporting. As a result, we began to reduce our position in the company and divested entirely from our liquid strategy.

Key outcomes and effectiveness

- We escalate our engagements when our objectives are not met. Escalation occurs on a case-by-case basis and the decision to reduce our position, or ultimately divest, is a multi-faceted consideration.
- We consider the severity of the engagement issue, the responsiveness of the management team, the strategic plan put in place to mitigate further incidents and the geography of the company's operations.

Exercising Rights and Responsibilities

Principle 12

Signatories actively exercise their
rights and responsibilities.

Exercising rights and responsibilities

As one of the leading participants in the syndicated leveraged loan and high yield bond markets across various sectors in both Europe and the United States, Alcentra has a reasonable degree of influence as an actual or potential lender or noteholder. Alcentra regularly attempts to effect changes to term sheets, loan agreements, offering memorandums and prospectuses during the marketing stages of the vast number of transactions presented to us. Given our influence, our feedback and views are often sought by borrowers, issuers, sponsors and/or arranging banks in pre-marketing stages, as later evidenced in our case study. This preview, ahead of general launches to the wider market, provides us with a first attempt to change and shape key factors through the introduction of ESG considerations, most commonly with the goal of embedding ESG KPIs.

Our legal review process is robust. Our internal legal counsel, specialising in leveraged financing, will conduct a detailed review of the legal documentation provided. The result of that review is a list of items that require further attention. Our internal legal counsel also has access to reports prepared by external document review providers. The analyst covering the relevant transaction will then consult with our internal legal counsel to determine a further refined list of points, whilst considering the transaction specifics. These details will then be raised with the arranging / underwriting banks. Depending on the circumstances, a discussion with such banks may take place. Our portfolio managers and investment committee members are kept abreast of these movements and often raise queries or engage in related discussions.

A similar process applies to amendment, consent and/or waiver requests, where the borrower or issuer of one of our existing investments is seeking to amend the loan or bond documentation via a voting process. The nature of these requests means that the relevant analyst may also have an opportunity to engage with the borrower, issuer or, if relevant, sponsor to gain a deeper understanding of the context, rationale and impact and present any initial feedback or views. Taking all relevant factors into consideration, we may then seek to influence the path forward by consenting, abstaining, or rejecting with regards to such vote, including, where relevant, proposing changes or conditions.

It should be noted that, when assessing a potential investment, we will consider the legal documentation along with other key decision drivers, including but not limited to, ratings, credit quality, sector, geography, ESG risk profile and economics. As such, if a borrower or issuer holds a relatively strong position and we have strong conviction on its outlook and relative value, we may be more likely to accept document concessions when investing.

Restructurings

Restructurings potentially provide us with even greater, and direct, influence over the legal documentation, which we use in striving to obtain the best outcome and value for all relevant parties. Depending on the amount of our exposure or holdings, we may join an ad hoc committee or group of lenders or noteholders, the key aim of which is to lead, formulate, negotiate and manage the relevant restructuring. Given the nature of these special situations, lenders or noteholders also tend to possess more bargaining power, relative to par or performing investments. As before, our internal legal counsel will be involved in the process, bolstered by external legal counsel and other advisers appointed to assist.

Voting activity

As a credit manager, proxy voting is not material within the context of our activities. The number of occasions when Alcentra will be engaged in proxy voting will be limited. It is most likely to occur with high yield bond investments, where an allocation may take on formal voting rights. In such instances, Alcentra uses the opportunity to vote on matters concerning governance and corporate responsibility, applying consistent policies and processes for voting across all instruments and geographies.

Alcentra generally will not be called upon to vote for proxies for its syndicated loan and private credit investments because of the nature of the instruments involved in the investment strategy (i.e., loans rather than securities). An exception is when Alcentra may hold loan investments which could be converted to voting securities.

Proxy votes are also not generally conducted for corporate bonds. In addition, proxy votes may take place from time to time on structured credit investments where our fund holds the equity tranche.

When engaged by a client to provide discretionary advisory services, Alcentra is typically delegated the responsibility to vote on matters considered at portfolio companies' shareholder meetings, usually by means of a proxy ballot ("proxy voting"). In these instances, Alcentra has a duty to monitor corporate events and to vote proxies in the best interest of its client and not subrogate the interests of its clients to its own interests. This generally means voting with a view toward enhancing the economic value of the investment.

When it has voting responsibility, Alcentra will make every attempt to vote when given an opportunity to do so. However, there may be instances when the Firm is unable or unwilling to vote because of legal or operational difficulties or because it believes the administrative burden and/or associated cost exceeds the expected benefit to a client. Alcentra reviews the circumstances for each vote to determine which stance would best serve its clients and votes accordingly.

ESG Margin Ratchets – *Syndication Process*

Objective:

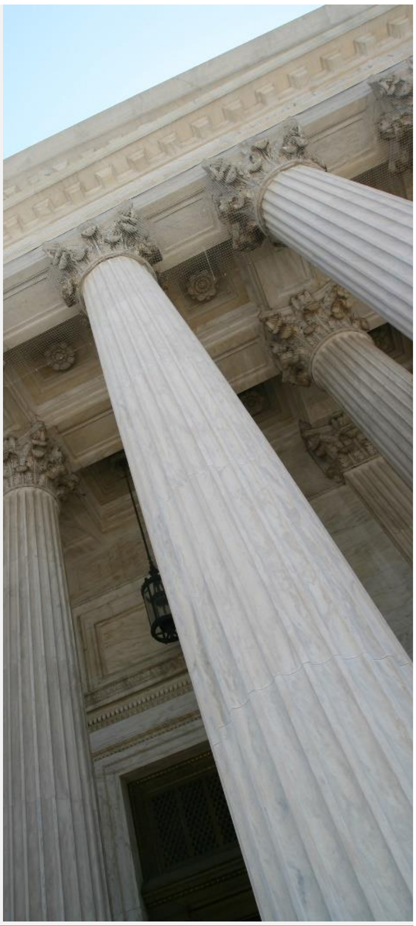
In a recently proposed amendment and extension of an existing Term Loan B and RCF, Alcentra pushed back on an ESG margin ratchet which would have negatively impacted governance.

Outcome:

This portfolio company already had a remarkably high level of ESG compliance in place. Therefore, a conventional ESG ratchet was not proposed by the sponsor. Instead, the sponsor sought to include a "Charitable Purpose Margin Reduction." This was proposed as a 10-basis point reduction in favour of the company, with a requirement for the company to donate or invest the interest savings in one of the company's existing charitable projects (or such other charity supporting UN Sustainable Development Goals) as the company might choose (in its sole discretion). The investment/donation period was set at 24 months from the end of the Financial Year in which the deduction was made. At the end of such period, if the company had breached the investment/donation requirement, the interest saving was refundable to the Agent upon request only, and for the benefit of the relevant Lenders at that time (who might differ from those from whom the interest deduction was made).

There were no milestones, independent reporting or information requirements attached to the proposed charitable purpose reduction.

Alcentra, among others, were forceful in its pushback on this novel proposal that would push the boundaries of ESG ratchets beyond previously seen terms, without proper governance controls and at the discretion of the company. As a result, this term was fully removed in syndication.



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