Arcmont
from nuveen

Arcmont Asset Management Limited Stewardship Report

October 2023

Contents

Preface

The UK Stewardship Code 2020 (the "Code") sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.

The Code defines "Stewardship" as "the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

The Code comprises a set of 'apply and explain' principles for asset managers but does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

At Arcmont Asset Management Limited ("**Arcmont**"), we are committed to exercising effective stewardship, recognising that it is fundamental to fulfilling our fiduciary duty to the funds we act as portfolio manager to. Accordingly, we fully support the principles of the Code and embed its 12 principles into our investment process.

This Stewardship Report sets out our commitment to adhering to high stewardship standards and contains details on how we have fulfilled our stewardship responsibilities over the 12-month period ending 31 October 2023, the progress we have made against the objectives set in last year's ***report*** and how we plan to enhance our stewardship approach over the next 12-month period.

Note that all data included in this report is stated as of 30 September 2023 unless otherwise specified.

Yours sincerely,

Anthony Fobel
Chief Executive Officer

About Arcmont

Arcmont is a leading Private Debt asset management firm, providing flexible capital solutions to a wide range of businesses across Europe. Since inception, Arcmont has raised €25 billion[1] of capital from over 390 blue-chip investors and has committed €25 billion[2] across more than 330 transactions across Europe.

The firm was originally established in 2011 as the Private Debt division BlueBay Asset Management. Following the significant growth of the Private Debt platform, in 2019 Arcmont was spun out to become an independently owned and managed business. In November 2022, after three years of operating independently, ***Nuveen***, the investment manager of the ***Teachers Insurance and Annuity Association*** (TIAA), agreed to acquire a controlling interest in Arcmont.

On 01 March 2023, the transaction completed and Arcmont has since been a Nuveen affiliate. For more information about the transaction, please see the ***press release***.

For more information about Arcmont, please visit our ***website***.

Business Overview

Founded in **2011**, a pioneer in European Private Debt

€25 bn[1] of capital raised from +390 blue-chip investors

+110 employees operating across 7 offices[3] across the globe

3 distinct investment strategies spanning the risk and return spectrum

€25 bn[2] of capital committed across +330 transactions across Europe

[1]Strategy capital includes separately managed accounts and estimated/actual leverage depending on the stage of each fund's life.
[2]Committed Cost "Going-in-Rate" EUR.
[3]Six offices in Europe, one in US; excludes the Luxembourg funds office.

Stewardship at Arcmont

The Code defines "Stewardship" as "the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." For the purpose of this report, Arcmont's "clients" are deemed to be the funds for which Arcmont acts as portfolio manager to.

At Arcmont, we endeavour to responsibly allocate, manage, and oversee capital to create long-term sustainable benefits for our clients and beneficiaries, the economy, society and the environment. Despite the challenges we face as a Private Debt asset manager (outlined below), we are committed to being effective stewards of our clients' capital and are continually looking to enhance and develop our approach to drive positive change.

(i) Influencing Portfolio Companies

As a lender to businesses as opposed to an owner, we have more limited control over our portfolio companies. To leverage control, we offer certain borrowers sustainability-linked margin ratchets[4] and tailored ESG engagement plans[5] (together "Engagements"). Although these are voluntary initiatives and borrowers elect to participate, they enable us to exert influence and encourage borrowers to improve their sustainability profiles. Please refer to ***Principle 9: Engagement*** for further details on our Engagements activities.

(ii) Quality ESG Data

As we typically invest in mid-market European companies, obtaining high quality and complete ESG data sets is challenging. Each portfolio company is at a different stage of its ESG journey, and we observe that a significant proportion are still at a very early stage without the appropriate measurement and tracking systems in place to provide us with comprehensive quality ESG data. Although there are positive market movements, largely driven by enabling regulatory environments, for example, the UK Streamlined Energy and Carbon Reporting (SECR) in the UK and the EU Corporate Sustainability Reporting Directive (CSRD), some borrowers are not yet in the scope of these mandates. Nonetheless, we are committed to collecting the data that is available (see ***Principle 7: Stewardship, Investment & ESG Integration***) and encouraging borrowers to improve their ESG data collection and quality (see ***Principle 9: Engagement***).

[4] Arcmont has a policy to offer a sustainability-linked margin ratchet to every (i) new primary borrower since April 2021 and (ii) existing primary borrower who is provided additional financing after April 2021. Note that the ratchets are voluntary and borrowers elect to participate.
[5] Arcmont has a policy to offer a tailored ESG engagement plan to every portfolio company where the participating Arcmont Funds hold, in aggregate, >20% of the equity. Note that the ratchets are voluntary and companies elect to participate.

Purpose and Governance

Principle 1: Purpose, Strategy and Culture

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 of our organisation

At Arcmont, we seek to advance sustainable economic growth for our investors, portfolio companies and wider society. To execute this, we promote and exercise effective stewardship in the funds we act as portfolio manager to and within our corporate operations.

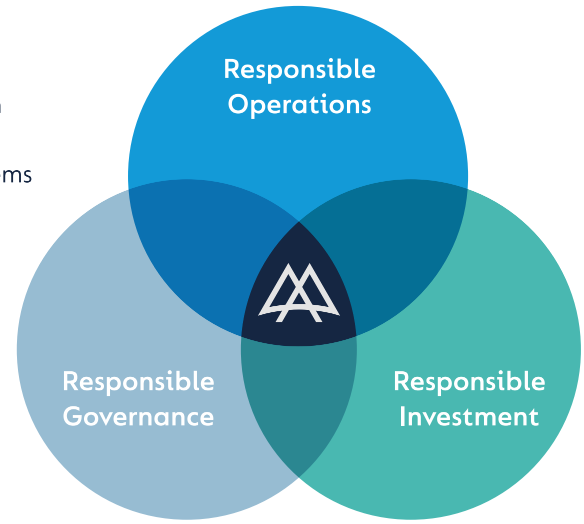
Our business model and strategy

As a firm, we aim to continue to grow our assets under management, investor base and product offering in a sustainable manner. This means ensuring our corporate operations and investment practices are performed in a responsible manner and are supportive of sustainability outcomes. Accordingly, we have invested in a sustainability strategy that builds on our responsible investment practices, responsible operations and supporting governance structures, with the UK Stewardship Code 2020 principles embedded throughout.

To ensure that our efforts and resources are focused in the right areas, our sustainability strategy is reviewed annually and is based on the results of an internal materiality assessment. The assessment allows us to identify, understand and prioritise the issues that are deemed to be critical to our business performance and key stakeholder groups. In our most recent assessment, a total of 13 priority areas were identified and mapped against three key pillars. The below, therefore, represents our priority areas for 2022/2023.

For further information on our sustainability strategy and the progress we have made in each area to date, please refer to our ***2022 Sustainability Report***. For a list of the objectives we have set for 2023, please refer to ***Appendix 1***.

1. Human Capital
2. Diversity, Equity and Inclusion
3. Climate change
4. Data Safeguarding and Systems
5. Investors
6. Communities



7. Ownership, Control and Governance
8. Business Ethics and Integrity
9. Management of the Legal and Regulatory Environment

10. Strategy
11. Governance
12. Process
13. Advocacy

Our responsible investment belief

Note that responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship)[6]. Therefore, for the purpose of this report, when we refer to responsible investment, it captures stewardship.

ESG factors are financially material. They are a source of investment risk and a driver of investment value. As such, understanding and minimising ESG risks and promoting better ESG performance within our investment activities is essential to create long-term value for clients and beneficiaries, in line with our fiduciary duty as an asset manager. Further, practising and promoting responsible investment amongst portfolio companies allows us to contribute to sustainable benefits for the economy, the environment and wider society. It also aligns with our investors' broader environmental and social objectives and positions us well for the increasing regulations and policies relating to ESG issues and disclosures.

We established our responsible investment focus over a decade ago when we became a member of the UN PRI, contributing to their Private Debt guidelines[7], and implemented a dedicated ESG investment risk management process and policy. Over the last decade, we have continued to enhance and develop our approach, integrating best practices into our investment process to enhance our credit analysis, monitoring and engagement efforts.

Today, we operate with a strong responsible investment framework where ESG factors are systematically considered at every stage of the deal lifecycle and are the cornerstone of our engagement activities. Our approach allows us to:

1. Identify ESG risks and opportunities to enhance investment decision making; and

2. Encourage portfolio companies to improve their ESG performance, with a specific focus on their climate performance.

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

For further information on our ESG-integrated process, please refer to ***Principle 7: Stewardship, investment and ESG integration***.

Our culture and values

We recognise that our employees' abilities, qualities and behaviours drive our ability to deliver our strategy. We are therefore committed to supporting our talented, diverse workforce with the resources required to enable the firm to achieve strong results for our investors, portfolio companies and other stakeholders, and aim to sustain a culture where our four corporate values are exemplified by all.

[6] *UN PRI: Introductory Guides to Responsible Investment.*
[7] *Spotlight on Responsible Investment in Private Debt.*

4 Corporate Values

INTEGRITY

We are committed to the highest standards of personal and professional ethics, demonstrating accountability for our actions through transparency.

EXCELLENCE

We aim to foster a high-performing environment where our employees strive to deliver strong results for our investors, portfolio companies and other stakeholders, and understand that there is always continued scope for improvement.

INNOVATION

We seek to anticipate and adapt to the needs of our investors and portfolio companies to deliver positive outcomes.

COLLABORATION

As a firm, we share our knowledge, experience and ideas, working towards a collective goal.

All employees are held accountable to these values in their annual performance reviews, and we reward them for demonstrating alignment to them. We provide thorough training and have strict controls and processes in place to ensure employees know what is expected of them, helping to ensure they act in a responsible manner and in the best interest of our clients. Please refer to ***Principle 2: Governance, Resources and Incentives*** for further details.

Actions taken during the period to ensure our investment belief, strategy and culture enable effective stewardship

In the 12-month period ending 31 October 2023, we undertook the following activities to ensure our responsible investment belief, strategy and culture enable effective stewardship:

- Reviewed our internal ESG materiality analysis to ensure our efforts and resources are focused in the right areas. Following the review, to reflect our increased focus and efforts on diversity, equity and inclusion, it was added as an additional focus area for 2022/2023.

- Subsequently reviewed our progress against each area and set ambitious objectives for 2023. For a list of all the objectives set, please refer ***Appendix 1***.

- Reassessed our alignment to the UK Stewardship Code 2020 by reviewing the Financial Report Council's feedback on our ***2022 Stewardship Report***.

  We have specifically included a "Progress against objectives set out in our 2022 Stewardship Report" section under each of the relevant principles to clearly show the steps we have taken to better align with them in the last 12-month period. By doing so, we have identified areas of improvement, the details of which are laid out in this report as objectives for the year ahead.

- Submitted a Transparency Report to the UN PRI in September 2023 detailing our responsible investment activities for the 2022 calendar year. The process allowed us to identify areas we can develop in the year ahead. Please refer to the ***Principle 5: Review and Assurance*** for further details.

- Widened the eligibility criteria of our sustainability-linked margin ratchet programme (previously referred to as our 'E&S Target Improvement Plan Programme') to try and gain influence over a larger proportion of our portfolio companies. We now offer sustainability-linked margin ratchets to primary borrowers who we originally invested in before April 2021 when we provide them with additional financing[8].

- Discussed our corporate values at our firm-wide annual offsite, reminding employees of our expectations and providing them with an open forum to share their views on the values they deem most important. We were pleased to hear employees championing our values.

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

PROGRESS AGAINST OBJECTIVES SET OUT IN OUR 2022 STEWARDSHIP REPORT

OBJECTIVES	STATUS	DETAILS
Re-perform a materiality assessment to ensure that the 12 priority areas we are focused on continue to be appropriate and relevant, ensuring our efforts and resources are focused in the right areas and subsequently set objectives for 2023	Achieved	During the period, our materiality assessment was reviewed to ensure sufficient and appropriate resources are devoted to the right areas. To reflect our increased focus on diversity, equity and inclusion, it was added as an additional focus area for 2022, increasing our number of priority areas from 12 to 13. We subsequently set 2023 objectives for each focus area. Please refer to ***Appendix 1*** for a list of all the objectives set under each priority area.
Deliver on the 2022 objectives laid out in our ***2021 Sustainability Report***	Partially Achieved	We are pleased to report that we delivered on the majority (71%) of our ambitious objectives, with the remaining objectives deferred to 2023. Note that our resources were dedicated to those objectives that we deemed to be a higher priority. Please refer to our ***2022 Sustainability Report***, specifically the '2022 Progress Review' sections under each pillar (p8, p23 and p32) for a concise summary of the progress made against each of the objectives set. Below we provide an overview. • Responsible Operations: 11 achieved, 1 partially achieved and 4 deferred. • Responsible Governance: 4 achieved and 1 deferred. • Responsible Investment: 5 achieved, 1 partially achieved and 1 deferred. Note that any 2022 objectives that were partially achieved or deferred are captured in our 2023 objectives.
Deliver on all future actions listed under each principle in our ***2022 Stewardship Report***	Partially Achieved	We are pleased to report that we delivered on the majority (65%) of the future actions listed in the report. To clearly inform readers of our progress and highlight the areas we are still looking to develop, we have included a '2022 progress review' section at the end of each of the relevant principles.
Address the gaps identified by our 2021 UN PRI assessment (covering the 2020 calendar year) before we participate in the next reporting cycle	Achieved	As mentioned in last year's stewardship report, we formulated an action plan to address the improvement areas identified ahead of the 2023 reporting cycle. During the year, we executed the plan and hope we will be rewarded in this year's PRI assessment. Note that responsible investment is fast evolving and the UN PRI assessment indicators have evolved since our 2021 submission. Therefore, there is no guarantee that our overall module scores will improve.

OBJECTIVES	STATUS	DETAILS
Continue to drive our engagement efforts to encourage our portfolio companies to improve their ESG profiles	Achieved	In line with our ***Responsible Investment Policy***, we have offered every new primary borrower since April 2021 a sustainability-linked margin ratchet. During the last 12-month period ending 30 September 2023, we successfully signed and documented 11 ratchets. This compares to 6 ratchets that were signed and documented in the prior period. Further, during the period the ESG Committee made the decision to offer a ratchet to any existing borrower who is provided additional financing after April 2021[9].

Future actions

In the year ahead, we plan to action the following to further protect and enhance our clients' assets.

- Re-perform a materiality assessment to ensure that the 13 priority areas we are focused on continue to be appropriate and relevant, ensuring our efforts and resources are focused in the right areas and subsequently set objectives for 2024.
- Make progress on the 2023 objectives laid out in ***Appendix 1*** to advance our sustainability strategy. Note that any 2022 objectives that were deferred have been included as 2023 objectives.
- Make progress on the future actions listed in this report.
- Review our 2023 UN PRI results (covering the 2022 calendar year) once released to identify areas of improvement and subsequently take action to address them.
- Submit a Transparency Report to the UN PRI in the 2024 reporting cycle (covering the 2023 calendar year).
- Continue to drive our engagement efforts to encourage our portfolio companies to improve their climate change mitigation practices.

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

Principle 2: Governance, Resources and Incentives

Signatories' governance, resources, and incentives support stewardship.

Governance structure

The firm was originally established in 2011 as the Private Debt division of BlueBay Asset Management. Following the significant growth of the Private Debt platform, in 2019 Arcmont was spun out to become an independently owned and managed business, supported by a minority investment from Dyal Capital Partners.

In March 2023, following further substantial growth of the platform, a majority interest in Arcmont was acquired by Nuveen, the investment management arm of TIAA. Following the completion of the transaction, Arcmont operates as an affiliate of Nuveen under the newly formed "Nuveen Private Capital". The new ownership structure has no effect on the underlying funds managed or advised by Arcmont.

Arcmont is managed by its Governing Body. Collectively, members of the Governing Body have a wide range of skills with an appropriate emphasis on compliance, risk and technology alongside the firm's general investment management objectives. The Governing Body retains ultimate oversight over the governance and operation of the firm and is ultimately responsible for instilling an appropriate risk culture within the firm, aligning risk with the business strategy, defining the firm's risk appetite and approving risk policies and infrastructure.

In addition, we operate with multiple subject-specific committees with defined responsibilities to facilitate effective and prudent management which is essential to ensuring we meet our stewardship objectives. We also ensure members of each committee have the relevant skills and experience to perform their roles. We seek to have a diverse range of people on the committees. We recognise that this fosters innovation and diversity of perspectives and opinions, ultimately improving decision-making.

We believe our governance structure enables oversight and accountability for stewardship within our organisation that is appropriate for our size and business model.

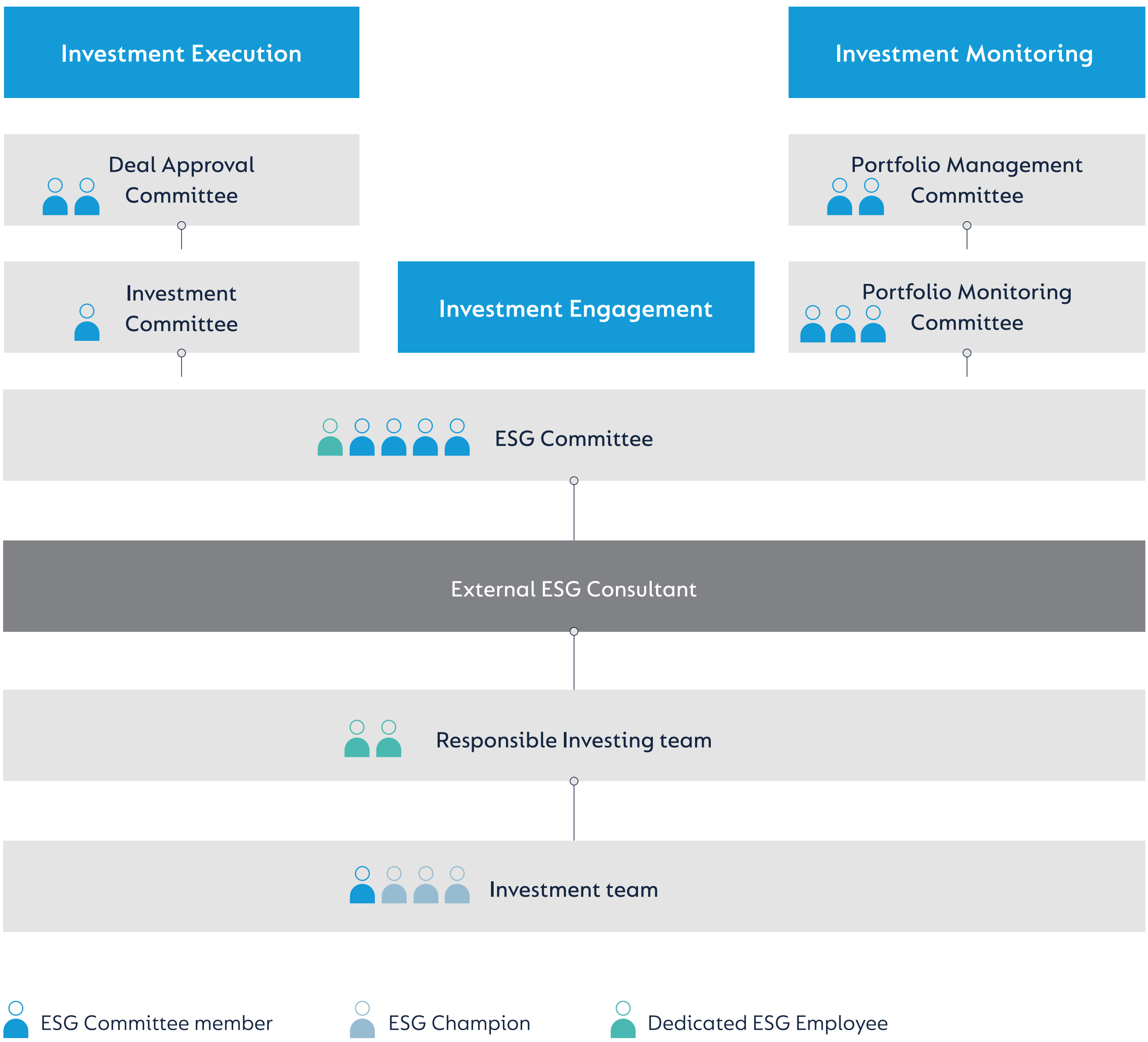
In addition, as a Nuveen affiliate we now fall under the scope of their internal audit function and will soon be subject to a Nuveen internal audit review. This will provide us with independent assurance on our risk management process and the effectiveness of our control environment. In parallel, during the reporting period we engaged PwC to perform a Type 1 internal controls audit which will give us further confidence in our controls. Looking forward, PwC will complete an annual Type 2 internal controls audit covering each calendar year starting from 2024. This independent oversight will give us and our investors confidence that we have robust processes and structures in place.

We believe the combination of our internal structures and added layer of external oversight will further foster accountability and transparency in the way we operate and conduct business, ensuring that as a firm we act as effective stewards of our clients' capital.

Responsible investment oversight

As shown overleaf, we have a strong framework in place to ensure effective responsible investment across the deal life cycle. Responsibility is diffused across the Investment team, Responsible Investing team and ESG Committee, with our external consultant, dss+, providing independent oversight at every critical investment decision point. On the following pages we provide further details on each of the teams' responsibilities.

INVESTMENT GOVERNANCE FRAMEWORK



1. **ESG Committee**

The ESG Committee is ultimately responsible for ensuring our corporate operations and investment practices are performed in a responsible manner and are supportive of sustainability outcomes.

The Committee is comprised of our Chief Operating Officer (chair), Co-Chief Investment Officer, Head of Corporate Sustainability and Responsible Investing, Chief Compliance Officer and Head of Portfolio Monitoring. We purposely selected senior individuals who sit on central decision-making committees and span across teams as members. This ensures that ESG and stewardship matters are considered at every essential investment decision point and the importance of investing and operating responsibly is communicated across the firm.

Below we list some of the Committee's core responsibilities:

- Oversight of ESG integration and stewardship strategies and programmes.
- Ensuring appropriate resources are available to execute effective ESG integration and stewardship activities.
- Reviewing and updating (as appropriate) Arcmont's responsible investment-related policies.
- Determining the frequency and scope of all responsible investment training.
- Ensuring compliance with applicable ESG-related legislation, including the EU's Sustainable Finance Disclosure Regulation (SFDR) and the UK's Task Force on Climate-Related Financial Disclosures regime (TCFD).
- Ensuring Arcmont complies with its obligations and commitments as a signatory to sustainability-related memberships.
- Overseeing the role of Arcmont's external ESG consultants and ESG service providers.
- Reviewing and approving proposed sustainability-linked margin ratchets and tailored ESG engagement plans with respect to Arcmont investments.

The Committee meets quarterly to review ESG-related performance and set objectives. Members are therefore able to evaluate the effectiveness and appropriateness of control mechanisms and targets on a regular basis, making enhancements and amendments where necessary. Note that the ESG Committee members receive regular ESG training.

2. Responsible Investing team

The Responsible Investing team comprises two individuals who form the link between the Investment team and dss+. Both individuals have been upskilled in responsible investment and receive regular ESG training. They, therefore, have the relevant knowledge and skills to execute their responsibilities.

3. dss+ (External ESG Consultant)

dss+ assists us with the development and execution of our sustainability strategy, with a specific focus on responsible investment. Collaboratively, the firm ensures we are aware of industry best practices and provides us with specific subject-matter expertise. Additionally, dss+ serves as an independent layer of oversight, underpinning the integrity and thoroughness of our responsible investment commitment. The team independently reviews all the responsible investment endeavours undertaken by our Investment team. This review occurs both during the pre-investment phase and on a quarterly basis post-investment, assuring continuous alignment with our responsible investment goals. For further information on dss+, please visit the company's ***website***.

4. Investment team

The Investment team is responsible for undertaking stewardship activities and incorporating ESG factors into the deal life cycle. At Arcmont, the same investment professionals that execute a deal will monitor the investment during our holding period. As the ultimate risk takers and investment experts, we believe they are best placed to execute effective ESG integration and stewardship activities amongst our investments.

The team is regularly trained on responsible investment, at least annually, and is supported by our Responsible Investing team and dss+ who are on hand to answer any questions and fill any knowledge gaps. In addition, all new joiners receive ESG training as part of the onboarding process.

The Investment team is comprised of 42 investment professionals with an average of 12 years of industry experience, across a wide range of businesses, sectors, and geographies. For the team's biographies, please see our ***website***.

We have three ESG champions in the Investment team who support the ESG Committee's efforts. Before any new initiative is rolled out, the ESG champions are consulted. The champions also attend the ESG Committee meetings as participants.

The Investment team are encouraged to achieve the best outcomes for our clients through our incentive programme. Please refer to the ***Incentives*** section below for more details.

SENIORITY, EXPERIENCE, QUALIFICATIONS AND TRAINING OF THE ESG COMMITTEE

NAME AND TITLE	YEARS IN INDUSTRY	YEARS IN ESG[10]	EDUCATION, QUALIFICATIONS AND TRAINING	OTHER ARCMONT COMMITTEES
Chief Operating Officer (Chair)	24.9	5.0	- Leads our ESG advocacy efforts through his participation as: • A member of the UN PRI Private Debt Advisory Committee (PDAC) • Co-Chair of the Alternative Investment Management Association (AIMA) Alternative Credit Council (ACC) Manager's Committee - Chartered accountant	- Arcmont Corporate Board - Deal Approval Committee - Portfolio Management Committee - Portfolio Monitoring Committee - Conflicts Committee - Product Governance Commitee - Operational Risk Committee - Conflicts of Interest Committee
Co-Chief Investment Officer	16.3	5.2	- Ensures ESG factors are considered in all Investment Committee decisions	- Investment Committee - Portfolio Management Committee
Chief Compliance Officer	10.1	3.0	- Supports our efforts to ensure compliance with all applicable ESG regulations	- Deal Approval Committee - Portfolio Monitoring Committee - Conflicts Committee - Product Governance Commitee - Operational Risk Committee - Conflicts of Interest Committee
Head of Corporate Sustainability and Responsible Investing	7.2	4.6	- Drives our Responsible Investment and Corporate Sustainability efforts - Completed the UN PRI's Applied Responsible Investment course - Holds the CFA Certificate in ESG Investing - Chartered accountant	- Diversity, Equity and Inclusion Committee
Head of Portfolio Monitoring	13.1	6.0	- Ensures ESG factors are considered in portfolio monitoring activities - Completed the UN PRI's Applied Responsible Investment course - Chartered accountant	- Portfolio Monitoring Committee

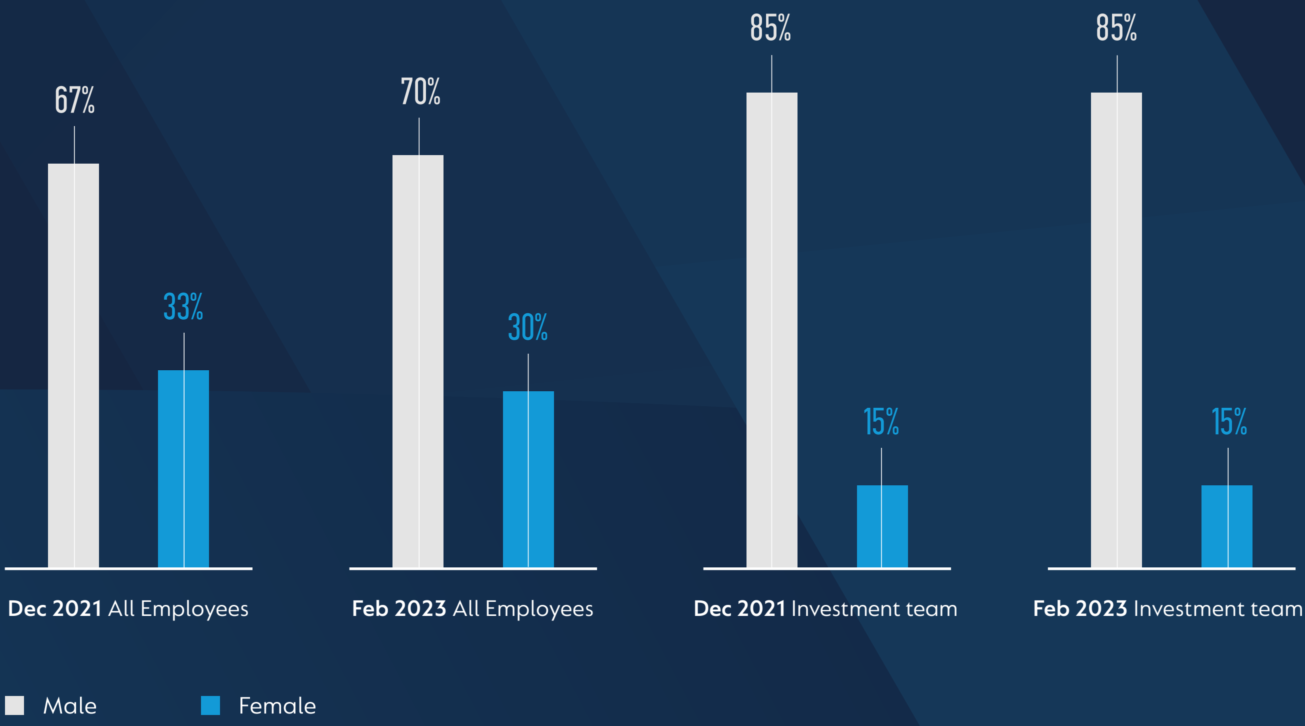
[10] We have operated with a formal ESG investment risk process since 2013 so we consider years worked at the firm to be years working in responsible investment.

Diversity

We recognise that diversity, equity & inclusion (“**DEI**”) efforts in the workplace are of critical importance. It is not only the right thing to do, but it also helps to create greater value for our stakeholders. Having diverse people of all genders, ethnicities, backgrounds, and experiences fosters innovation and ultimately improves long-term performance.

The charts below provide a snapshot of the gender representation levels of our employees and Investment team as of December 2021 and February 2023[11].

GENDER



Note: At the time the employee survey was taken, 3 non-Investment team employees were on maternity leave. They therefore did not participate in the survey and so are not included in the results.

[11]Due to different data protection laws across the countries in which Arcmont operates, only UK based employee data was collected.

ETHNICITY

The charts below provide a snapshot of the ethnicity representation levels of our employees and Investment team as of February 2023.

All Employees

Investment Team

- Asian / Asian British
- Black / Black British / Caribbean / African
- Middle Eastern
- Mixed or multiple ethnic groups
- White

We recognise there is room for improvement and are committed to improving representation levels across our business. To this end, during the reporting period, we added DEI as an additional priority area for 2022/ 2023 and established a dedicated DEI Committee to drive progress. Since its establishment, the Committee has created a roadmap for the year ahead based on leading DEI practices and the DEI audit that was completed in 2022. For further information on the Committee and the roadmap, please refer to pages 12 and 13 in our ***2022 Sustainability Report***. For a list of the objectives set, please refer to ***Appendix 1***.

Assessment of how effective our governance structure and processes have been in supporting stewardship.

Please see below examples of some of the activities undertaken by the ESG Committee in the 12-month period ending 31 October 2023 which demonstrate the effectiveness of our governance structure in supporting our ESG integration and stewardship activities.

TOPIC	DETAIL
Sustainability-Linked Margin Ratchet Approvals	The Committee reviewed and approved 100% of all sustainability-linked margin ratchets prior to them being agreed and documented. This was a total of 11 sustainability-linked margin ratchets for the 12-month period ending 30 September 2023.
Sustainability-Linked Margin Ratchet Enhancements	The Committee: - Agreed to offer any primary borrower that Arcmont invested in prior to April 2021 a ratchet when additional financing is provided. - Introduced a rule requiring all sustainability performance targets to be verified by an independent third party prior to being agreed.
Modern Slavery Statement	The Committee reviewed, provided input on and ultimately approved Arcmont's ***2023 Modern Slavery Statement***.
Responsible Investment Policy	The Committee reviewed, provided input on and ultimately approved revisions to Arcmont's Responsible Investment Policy. Please refer to ***Principle 4: Review and Assurance*** for details of the changes made. The revised ***Policy*** was published in October 2023.
ESG Exclusions Policy	The Committee reviewed, provided input on and ultimately approved revisions to Arcmont's ESG Exclusions Policy. Note that the changes did not substantively amend the Policy or change the types of investments the Arcmont Funds made, the changes were for clarificatory purposes only in order to assist with its application. The revised ***Policy*** was published in October 2023.
ESG Training	The Committee arranged two training sessions for the Investment team based on recommendations from our Head of Corporate Sustainability and Responsible Investing, dss+ and Chief Compliance Officer. Please see details below.
Portfolio Company ESG Questionnaire	In an effort to improve our monitoring and engagement efforts, the ESG Committee made the decision to roll out an ESG questionnaire to all primary borrowers. The questions directly reflect the UN PRI's Private Credit (PC)-Private Equity (PE) ESG Factor Map and the Sustainable Finance Disclosure Regulation (SFDR) Principle Adverse Impact (PAI) Indicators. The questionnaire is due to be rolled out in November 2023.
Terms of Reference	The Committee approved updates to their Terms of Reference in November 2022 to reflect their broader responsibilities, specifically relating to Arcmont's stewardship approach.
Public ESG Disclosures	The Committee reviewed, provided input into and ultimately approved our ***2022 Sustainability Report***, 2023 UN PRI Reporting (covering the 2022 calendar year) and this Stewardship Report.
Climate Change Addendum to Arcmont's Responsible Investment Policy	Upon a recommendation from our Head of Corporate Sustainability and Responsible Investing, the Committee agreed a Climate Change Addendum should be published to specifically communicate how climate change is considered in the investment processes. Committee reviewed and provided input on the ***Addendum*** which was published in December 2022.

Responsible investment training

Responsible investment training is provided to relevant personnel on a regular basis, and at least annually, to ensure they have the required ESG knowledge and skills to incorporate best responsible investment practices into their day-to-day activities. As mentioned above, we have a strong review process where dss+ independently reviews all the ESG work done by the Investment team. This allows for capabilities and training needs amongst our investment professionals to be continually assessed.

Please see below select examples of the responsible investment training delivered and qualifications obtained over the last 12 months, demonstrating the effectiveness of our current structure in supporting our ESG integration and stewardship activities.

At the time of drafting, two additional ESG training sessions are scheduled for the Investment team in November 2023. The first session will cover the revisions made to our ESG Exclusions Policy and Responsible Investment Policy. The second session will cover our Portfolio Company ESG Questionnaire.

SUBJECT	PROVIDER	ATTENDEES	DETAILS
Sustainable Finance Disclosure Regulation (SFDR) Training	Head of Corporate Sustainability and Responsible Investing and Chief Compliance Officer	Investment team	30-minute session covering: • SFDR Article 8 criteria • SFDR Article 8 reporting requirements • Our Good Governance criteria • Enhancements made to our sustainability-linked margin ratchet programme
Anti-Greenwashing	External Legal Counsel	• Investment team • ESG Committee • Client Services team • Business Development team	60-minute session covering the definition of greenwashing, related regulations in the UK, EU and US, case studies and risk mitigation measures.
Task Force on Climate Related Financial Disclosures (TCFD)	EcoAct	ESG Committee	90-minute session covering the TCFD requirements and the results of Arcmont's Climate Scenario Analysis.
Certificate in ESG Investing	Chartered Financial Analyst (CFA) Institute	• Head of Corporate Sustainability and Responsible Investing (obtained) • Responsible Investing Analyst (currently studying)	15-hour course focused on identifying and incorporating ESG factors in investment decision making.

Incentives to integrate stewardship and investment decision-making

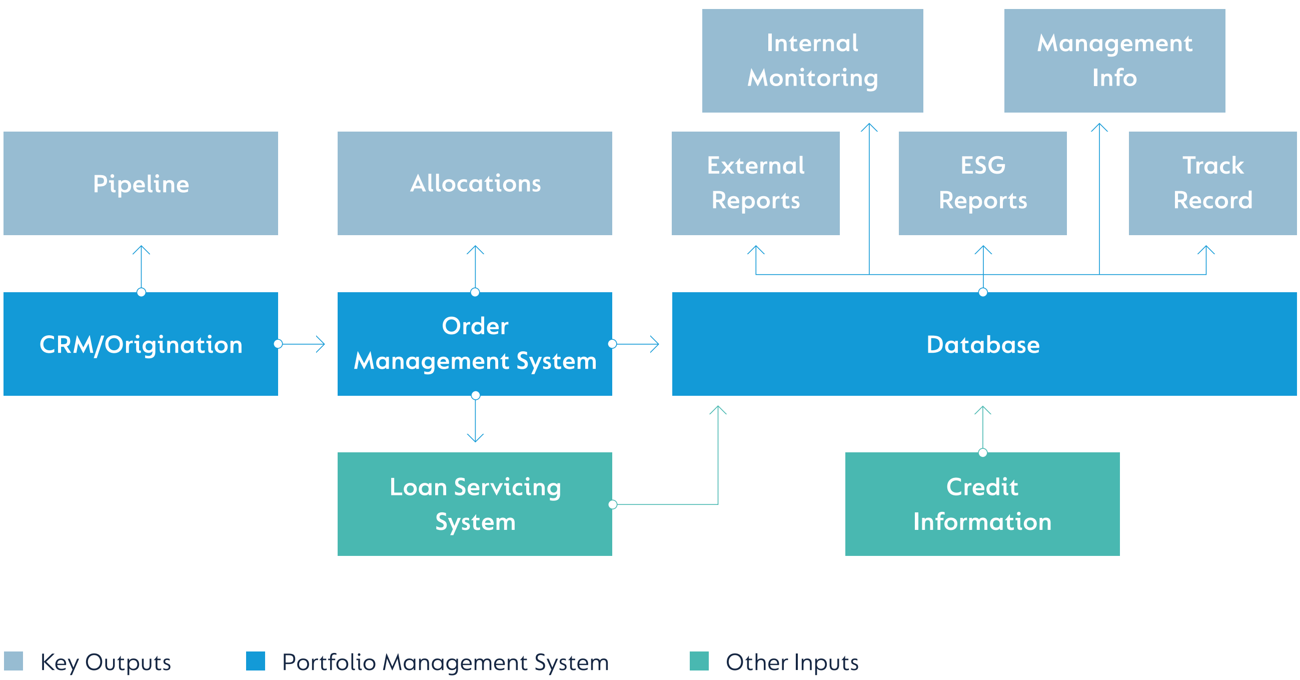
As part of the spin-out from BlueBay Asset Management, a Long-Term Incentive Plan (LTIP) was put in place to provide phantom equity ownership to all employees. As part of the Nuveen transaction, all employees who were at the firm at the time of the transaction have retained a significant equity share to ensure that incentives remain aligned going forward. This means that employees have a vested interest in the company's long-term success and are incentivised to ensure Arcmont is an effective steward of our clients' capital.

In terms of compensation, we seek to align individual performance and incentives with our clients' interests while complying with the applicable Financial Conduct Authority's (FCA) remuneration requirements. The Arcmont Board is responsible for reviewing and implementing Arcmont's Remuneration Policy. The make-up of remuneration for each role is set according to function and seniority within our incentive framework. Note that relevant individuals' contribution to the successful roll out of our stewardship approach feeds into their performance reviews and therefore employees are incentivised to exercise effective stewardship in the investment process.

Further, to ensure economic alignment with Arcmont's clients, the Investment team and select other members of the firm participate in our carried interest scheme. We believe linking rewards to the performance achieved for our clients creates a greater alignment of interests.

Investment in systems, processes, research and analysis

We operate using a bespoke, fully integrated platform for end-to-end portfolio management. This encompasses a customer relationship management system for the deal teams, an automated portfolio monitoring process, an order management system to streamline our allocation process and a data warehouse for all our investor and regulatory reporting. All investee ESG data, both qualitative and quantitative, is captured in our system. This includes details of material ESG risks, GHG emissions data as well as engagement details and outcomes. During the reporting period, we enhanced our engagement tracker to better record the details of our sustainability-linked margin ratchets. It is this tracker that the ESG Committee reviews at every quarterly meeting.



To support our responsible investment research and analysis, we leverage the following solutions.

SOLUTION	DETAILS	RELEVANCE TO STEWARDSHIP ACTIVITIES
RepRisk	A third-party research and business intelligence organisation specialising in ESG data science.	We leverage the platform to source additional information on companies' business conduct. The platform allows us to **(i)** identify industry-specific material ESG risks in line with the Sustainability Accounting Standards Board (SASB) standards, **(ii)** assess companies' ESG risks through RepRisk's Sustainable Development Goal (SDG) risk lens and **(iii)** monitor company ESG risks daily via a customisable watchlist and a tailored email alert service. This allows us to make timely, better-informed investment and monitoring decisions as the platform uses artificial intelligence to screen our portfolio companies daily.
Insight ESG Outreach Solution	The eFront® platform's centralised, out-of-the-box solution that gathers and analyses ESG data for private market investors and fund managers across their investments. The solution provides embedded regulatory reporting templates and data extracts to support ESG reporting initiatives and requirements. It also provides benchmarking at the company level across key metrics against private market peers and public proxies.	The solution allows us to: (i) Collect data from our portfolio companies and benchmark them against market peers and public proxies; and (ii) Fill data gaps where reported ESG data is not available, allowing us to meet our investors' disclosure demands.

Extent to which service providers are used and the services they provide

We work with two key external parties who support our stewardship activities as detailed below.

Note there are limited instances where Arcmont has voting shareholder rights, we, therefore, do not utilise third parties for proxy voting services. Please refer to ***Principle 12: Exercising Rights and Responsibilities*** for further details.

PROVIDER TYPE	DETAILS	RELEVANCE TO STEWARDSHIP ACTIVITIES
dss+ (Sustainability Consultant)	dss+ (a global consulting firm that acquired KKS Advisors) is a leading provider of operations management consulting services with a focus on sustainability. The team of experts in ESG and Sustainable Finance is dedicated to providing tailored solutions to effectively integrate ESG and impact considerations into the investment process. The dss+ team specialises in strategy and research, empowering their clients to create long-term value through the integrated management of economic, environmental, social and governance factors.	Assists us with the development and execution of our sustainability strategy, with a specific focus on responsible investment. Collaboratively, the firm ensures we are aware of industry best practices and provides us with specific subject-matter expertise. Additionally, dss+ serves as an independent layer of oversight, underpinning the integrity and thoroughness of our responsible investment commitment. Their team independently reviews all the responsible investment endeavours undertaken by our Investment team. This review occurs both during the pre-investment phase and on a quarterly basis post-investment, assuring continuous alignment with our responsible investment goals.
EcoAct (Climate Consultant)	An international climate consultancy and project developer, supporting businesses and financial institutions across all aspects of their net-zero transformation.	Supports us with: (i) Measuring our corporate GHG emissions; (ii) Developing our GHG emissions reductions road map; and (iii) Preparing our inaugural FY2023 Task Force on Climate-Related Financial Disclosures (TCFD) report, including conducting Climate Scenario Analysis (CSA).

Actions taken during the period to improve the effectiveness of our governance structures and processes in supporting stewardship

During the 12-month period ending 31 October 2023, we undertook the following activities to improve the effectiveness of our governance structures and processes in supporting stewardship:

- Engaged PwC to complete a Type 1 internal controls audit in accordance with both the International and English standard for assurance reports on internal controls (ISAE 3402 and AAF 01/20 respectively). The primary goal of delivering this report is to provide a comprehensive description of the control environment and internal controls that is consistent with the delivery of portfolio management services. The report will include a review of the processes and controls we have implemented in order to incorporate ESG factors into investment analysis and decisions.

- Continued to provide responsible investment training to the Investment team, Responsible Investing team and ESG Committee.

- Engaged EcoAct to support us with developing our corporate climate strategy and preparing an inaugural TCFD report for FY2023.

- Introduced formal ESG sign-off as part of the Deal Approval Process. Our Head of Corporate Sustainability and Responsible Investing is now required to sign off on every investment from a Responsible Investment perspective, specifically confirming that our responsible investment-related policies and processes have been adhered to.

- Onboarded the ESG Outreach Solution to enhance our ESG analysis and collect reported ESG data from our portfolio companies in a systematic manner.

- Appointed an additional Investment team member as an ESG Champion to support the growing Investment team, increasing the total number of ESG Champions to three.

- Hired a Responsible Investing Analyst and established a dedicated Responsible Investing team.

- Developed our internal engagement tracker to better record the details of our sustainability-linked margin ratchet efforts and the details of active ratchets. This has enabled the ESG Committee to better understand and review the progress being made.

Progress Review

OBJECTIVES IN 2022 REPORT	STATUS	DETAILS
Hire a Responsible Investing Analyst/ Associate to support our ESG Portfolio Manager, with the long-term goal of building a dedicated internal Responsible Investing team	Achieved	In May 2023, we welcomed a Responsible Investing Analyst and established a dedicated Responsible Investing team.
Onboard a proxy data provider to allow us to deepen our ESG integration	Achieved	We onboarded the Insight ESG Outreach Solution at the start of 2023.
Explore linking remuneration to ESG and stewardship objectives to further incentivise employees to exercise effective stewardship	Not achieved	We are currently exploring implementing responsible investment KPIs to evaluate the performance of relevant individuals.
Continue to roll out ESG-related training to ensure the relevant employees have the required knowledge and skills to perform their duties	Achieved	Please refer to the examples provided in this section.

Future actions

In the year ahead, we plan to action the following to further improve the effectiveness of our governance structures and processes in supporting stewardship:

- Exploring implementing responsible investment KPIs to evaluate the performance of the relevant individuals.
- Continue to train the relevant employees on responsible investment to ensure they have the relevant knowledge and skills to execute their responsibilities effectively.
- Prepare to undergo Nuveen's internal control audit.
- Obtain a Type 2 internal controls audit in FY2024 to give users comfort on the design and operating effectiveness of the controls we have in place over a period of time.
- Roll out ESG training to our employees to increase awareness and communicate its importance across the firm.

Principle 3: Conflicts of Interest

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

At Arcmont, we seek to operate in accordance with the highest standards of compliance and ethical conduct. As detailed in our internal Conflicts of Interest Policy (the "Policy"), we have established a comprehensive framework to identify, prevent and manage conflicts of interest to ensure that no client is disadvantaged. The Policy and overall framework are overseen by our Conflicts of Interest Committee.

Below we provide information from our Conflicts of Interest Policy that explicitly addresses the requirements of the Code.

Identifying conflicts of interest

A conflict of interest may arise in a scenario where there is an incentive to serve one interest at the expense of another interest or obligation. All employees are required to report any situation where a conflict may occur to our Compliance team. Each committee is also responsible for identifying potential conflicts of interest. This is especially relevant for our Investment Committees and Deal Approval Committee.

Our conflicts of interest escalation framework is shown below.

LEGAL AND COMPLIANCE

- Advice to business units/individuals/committees/in relation to transactions
- Conflicts policies, processes and disclosure
- Conflicts of interest training
- Conflicts of interest monitoring and control testing by compliance

EMPLOYEES
- Likely point of identification of conflicts. Each employee has a duty to follow established policies and processes in order to mitigate the conflict and/or escalate to their manager, Legal, Compliance, the Conflicts of Interest Committee or a member thereof.
- Members of other committees must consider potential conflicts and their mitigation as part of their role as a committee member.

BUSINESS UNIT MANAGEMENT
- Ensure conflicts affecting the business unit are identified and addressed, including escalating as appropriate to senior management, Legal, Compliance, the Conflicts of Interest Committee or a member thereof.
- If conflicts arise between business units, escalating to senior management, Legal, Compliance, the Conflicts of Interest Committee or a member thereof.

CONFLICTS OF INTEREST COMMITTEE MEMBERS
- Appointed to the Committee and act as a focal point for identifying and resolving conflicts.
- Employees may query potential conflicts with Committee members, who in turn may escalate unresolved or significant conflicts either to senior management or the Committee.

CONFLICTS OF INTEREST COMMITTEE
- Oversees the operation of Arcmont's conflicts of interest register, conflicts of interest governance structure, and all processes relating to identifying and resolving conflicts of interest.
- The Committee may assist with resolving conflicts of interest or escalating them to the Board for resolution.

Preventing and managing any instances of actual or potential conflicts

Arcmont is required by the Financial Conduct Authority (FCA) to prevent and manage conflicts of interest fairly, both between Arcmont and our clients, and between one client and another client. To this end, we have established a robust conflicts of interest framework to effectively manage, assess and prevent such incidents including:

- Policies and procedures which are reviewed at least annually.
- Governance arrangements including but not limited to our Conflicts of Interest Committee, which is responsible for reviewing individual conflicts of interest and for overseeing our conflicts of interest framework.
- Embedding the FCA Treating Customers Fairly principles in our culture, policies and procedures as detailed in our Treating Customers Fairly Policy.
- Clearly defined and documented reporting lines and responsibilities.
- Alignment of firm and employee interests with clients' interests through the linking of remuneration to client portfolio performance.
- Contractual obligations for all employees to comply with compliance and HR policies which are designed to mitigate conflicts arising and encourage employees to report suspected conflicts.
- Mandatory conflicts of interest training for all staff as well as training on other applicable regulations.

Our Compliance team and Conflicts of Interest Committee regularly review the effectiveness of our conflicts of interest framework. In addition, our compliance consultant undertakes independent quarterly monitoring of our compliance framework which includes our policies, procedures and controls in relation to conflicts of interest.

Each year we also undertake, with assistance from our compliance consultants, a Conduct Risk Assessment which assesses the controls we have in place to reduce the risk of a negative outcome for our clients due to action taken by Arcmont or our employees. The Conduct Risk Assessment includes assessments of the arrangements we have in place to prevent poor conduct from the firm or employees in relation to conflicts of interest. We are pleased to report that the risk assessment undertaken during the period identified no areas of high residual risk of poor conduct.

Conflicts of interest relating to stewardship

As a Private Debt asset manager, we face limited situations where an actual or potential conflict could arise in relation to stewardship. All clients who have been in their investment periods during the last 12 months are subject to the same ESG policies and requirements, meaning that their interests are aligned when we pursue ESG-related outcomes. As a result, we have not experienced any actual or potential conflicts in relation to stewardship in the 12-month period ending 31 October 2023.

One example of a situation where a conflict could potentially arise in relation to stewardship is where we have employees appointed as directors of one of our portfolio companies. A director of a company has statutory duties requiring them to act in the best interests of the company. The interests of a portfolio company and the interests of our clients on a particular issue (for example, certain climate-related commitments that may come at a significant cost to the portfolio company) may not always align. The monitoring and escalation framework described in this section would be used to identify such situations. Our Conflicts of Interest Committee would then be responsible for ensuring that steps are taken to adequately manage such a conflict.

Principle 4: Well-Functioning Markets

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

We seek to maximise risk-adjusted returns for our clients and beneficiaries. It is therefore in our interest to identify and respond to market-wide and systemic risks which have the potential to impact this objective, as well as support and advance initiatives that aim to reduce these risks.

As mentioned in ***Principle 2: Governance, Resources and Incentives***, the Governing Body is ultimately responsible for instilling an appropriate risk culture within the firm, aligning risk with the business strategy, defining the firm's risk appetite and approving risk policies and infrastructure. Accordingly, the Governing Body has established a robust risk management framework to ensure risks are identified, assessed and managed appropriately, including market-wide and systemic risks. Each business function is responsible for identifying and managing risks in their individual areas, however, they are supported and overseen by our subject-specific committees as well as our Enterprise Risk Manager and Compliance team.

In terms of our investment activities, the Portfolio Management Committee is responsible for carrying out quarterly and periodic reviews of the entire investment portfolio to monitor credit quality, diversification, current yield dynamics and downside protection. The Committee is comprised of the Direct Lending Investment Committee, Co-Heads of our Capital Solutions Strategy and Chief Operating Officer. Our Chief Compliance Officer also attends every meeting as an observer.

Identifying and responding to market-wide and systemic risks

We have access to information and expertise on market-wide and systemic risks through our investment activities (e.g. expert calls and commissioned subject-specific reviews), subscriptions to various news platforms, participation in various industry initiatives and regular conversations with third parties (e.g. legal advisors, industry bodies and regulators). In addition, external parties (e.g. banks, economists and consulting firms) often present to the Investment team on various topics, including macroeconomic trends and the Direct Lending market. We are therefore kept well-informed on market movements and systemic risk developments.

CASE STUDY

Identifying Macroeconomic Trends

On a regular (usually biweekly) basis, using information obtained from expert calls, data providers, subscriptions and other sources, members of the Investment team produce a European Leveraged Finance Market Update document which is circulated to our Investment, Client Services and Business Development teams. The content of the document varies week on week, however, it often covers macro events (including geopolitical issues and interest rates), the European High Yield market, the European Leveraged Loan market, a forward-looking calendar of pipeline deals and short-term market trends. This information is often discussed at Investment Committee meetings to ensure the full team understand the economic and market factors that impact can impact our investments.

We adopt both a top-down and a bottom-up approach to market-wide and systemic risk identification, assessment and management as showcased below.

CASE STUDY

Managing Macroeconomic Risks – Portfolio Risk Analysis

If a market risk is identified, the Portfolio Management Committee will commission a portfolio-wide review to assess investees' risk exposure and management practices. Since the onset of the pandemic, we have tracked certain portfolio risk analysis metrics to monitor the performance of our portfolio companies. This analysis, prepared by the Portfolio Monitoring Committee, is updated at least quarterly, but often more regularly. Although the analysis was originally published in response to the COVID-19 pandemic, it has since been updated to incorporate prevailing market risk factors such as the Russia-Ukraine crisis, supply chain disruption and inflationary pressures in addition to the credit risk of each individual investment. The analysis is updated quarterly and, based on the results, the Committee will instruct the Investment team to engage with certain portfolio companies to encourage them to take protective measures. During the reporting period, the Portfolio Management Committee performed an interest coverage analysis exercise across the portfolio in response to rising interest rates.

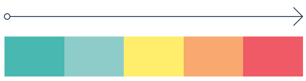
CASE STUDY

Managing Environmental Risks – Climate Scenario Analysis

The ESG Committee is also able to commission top-down portfolio reviews. For example, during the reporting period, the Committee made the decision to engage an external climate consultant, EcoAct, to undertake Climate Scenario Analysis to understand the scope and materiality of the climate-related risks amongst our investments and their impact on our business model and strategy.

At the time of drafting, EcoAct had identified and performed a high-level review of the main climate-related risks across our portfolio and had identified the industries and companies that required a deep dive. Please see below an high level summary of their findings[12].

GICS INDUSTRIES	PORTFOLIO	EMISSIONS	PHYSICAL	TRANSITION
Consumer Discretionary Education				
Consumer Discretionary Textiles, Apparel & Luxury Goods, Leisure Products, Household Durables				
Health Care Health Care Providers & Services, Health Care Equipment & Supplies				
Information Tech Software, IT Service				
Materials Containers & Packaging, Chemicals, Construction Materials				



Increasing materiality of risks

[12]EcoAct analysis prepared for Arcmont.

Looking forward, EcoAct will now work to identify specific risks to the most material industries and companies to prioritise for deeper analysis (quantitative modelling) and propose how to incorporate the findings into our investment and risk decision-making process. This will include enhancements to our ESG due diligence and monitoring processes.

CASE STUDY

Identifying Systemic Risks Amongst Investments – Arcmont's Universe of ESG Issues

As detailed in ***Principle 7: Stewardship***, ***Investment and ESG Integration***, our responsible investment approach encompasses a systematic assessment of ESG risks, including systemic risks. We specifically leverage a tool titled "Arcmont's Universe of ESG Issues" to ensure the most relevant and material ESG risks for our investment universe are considered and assessed prior to executing a transaction and on an ongoing basis during our holding period.

Within this tool, we capture certain ESG issues that have the potential to pose systemic risks, including biodiversity loss (Biodiversity and Land Use), climate change (Physical, Transitional and Regulatory), pollution (Toxic Emissions and Waste Management), water scarcity (Water Stress), human rights (Labour Practices & Human Rights), cybersecurity (Customer Privacy and Data Security) and corruption (Business Ethics).

The tool was created in conjunction with subject matter experts and was created using MSCI and SASB materiality matrixes, SASB's Climate Risk Technical Bulletin, Arcmont's bespoke GICS mapping tool and other sources. The tool is reviewed and updated regularly to ensure the risk factors remain relevant and appropriate. To do this, we review the aforementioned sources for updates, assess whether any material issues have been identified for any existing or prospective investments that were not captured by the tool and reassess the category names.

During the reporting period, we purposely split the three types of climate risk (as defined by SASB's Climate Risk Bulletin) to deepen our analysis of each risk type. We also added an "ESG Appendix" to our final investment memorandum template which requires the Investment team to evidence that they have considered specific resources and all of the ESG factors in Arcmont's Universe of ESG Issues list.

ARCMONT'S UNIVERSE OF ESG ISSUES

ENVIRONMENTAL	SOCIAL	GOVERNANCE
• Biodiversity and Land Use • Climate Risk (Physical) • Climate Risk (Regulatory) • Climate Risk (Transitional) • Energy Management • Material Sourcing and Efficiency • Toxic Emissions and Waste Management • Water Stress	• Access and Affordability • Community Relations • Customer Privacy and Data Security • Employee Wellbeing, Health and Safety • Human Capital Development • Labour Practices and Human Rights • Product Design and Lifecycle Management • Product Quality and Safety • Selling Practices and Product Labelling • Supply Chain ESG Standards and Monitoring	• Business Ethics • Enterprise Risk Management • Management of the Legal and Regulatory Environment • Ownership and Control • Tax Transparency and Accounting

CASE STUDY

Managing Systemic Risks – Climate Risk

As further described in ***Principle 9: Engagement***, since July 2022 we have been focused on encouraging borrowers to improve their climate change mitigation practices and offer new primary borrowers[13] margin discounts to do so. This helps us to mitigate a systemic risk amongst our portfolio companies. Please refer to ***Principle 9: Engagement*** for case studies.

- Of the 19 documented ratchets, 15 (79%) contain climate change-related key performance indicators.
- Of the 11 ratchets documented during the reporting period, 10 (91%) contain climate change-related key performance indicators. This compares to 5/6 (83%) in the prior period.

Working with other stakeholders to promote continued improvement of the functioning of financial markets

We recognise that it is in our own interest, our investors and society as a whole to have well-functioning financial markets. Accordingly, the firm and members of the firm participate in and support initiatives to promote well-functioning financial markets. Please see examples overleaf.

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

INITIATIVE	EXTENT OF INVOLVEMENT	STATUS	DESCRIPTION
UN PRI Private Debt Advisory Committee (PDAC)	Moderate	Member	Our Chief Operating Officer and Chair of the ESG Committee is a member of the UN PRI's PDAC. The purpose of the Committee is to develop solutions for the ESG challenges faced by the Private Debt asset class.
The Alternative Investment Management Association (AIMA) Alternative Credit Council (ACC) Manager's Committee	Moderate	Member	Our Chief Operating Officer and Chair of the ESG Committee is the Co-Chair of the AIMA ACC Manager's Committee, a global body for the Private Credit and Direct Lending space. As an AIMA affiliate, the ACC offers educational and sound practice guides and represents the asset class through advocacy and regulatory engagement.
UN PRI	Basic	Signatory	Arcmont became a signatory of the UN PRI in December 2019, continuing the affiliation that began in July 2013 while part of BlueBay Asset Management.
Taskforce on Climate-related Financial Disclosures (TCFD)	Basic	Supporter	Arcmont became a supporter of the TCFD in January 2022. Across the public and private sector, we recognise the importance of increasing transparency of climate-related risks and opportunities, promoting more informed financial decision-making and building a more resilient financial system.
2021 Global Investor Statement to Governments on the Climate Crisis	Basic	Supporter	In September 2021, we supported the initiative which is coordinated by the seven Founding Partners of the Investor Agenda, calling on governments to accelerate action to tackle the climate crisis, including demanding that governments impose mandatory climate risk disclosure requirements aligned with TCFD recommendations.

CASE STUDY

UN PRI PDAC

The UN PRI PDAC's objective is to drive forward responsible investing progress for Private Debt and complements the PRI's existing work, which is summarised below.

Private Credit-Private Equity ESG Factor Map	The PRI has worked with signatories to streamline the environmental, social and governance information shared during the investment process. It is designed to facilitate collaboration between sponsors, co-investors and lenders and integrate existing ESG standards and frameworks.
Spotlight on Responsible Investment in Private Debt	This guide was published in 2019 and provides a framework for incorporating ESG factors into the investment process for Private Debt. It covers data, investment decisions and engagement. Note that Anthony Fobel, our Chief Executive Officer, contributed to the paper.
Responsible investment DDQ for Private Debt investors	The ESG due diligence questionnaire for Private Debt investors is designed for use by indirect investors (i.e. limited partners or asset owners) when assessing potential Private Debt managers.

During the reporting period, the Committee successfully rolled out an online survey targeting Direct Lending investors who act as general partners and/or limited partners. The survey of Private Debt market participants found significant advances in ESG incorporation, engagement and other practices. The Committee subsequently published a paper titled ***"ESG Incorporation in Direct Lending 2023"*** which builds on the PRI's 2019 ***"Spotlight on Responsible Investment in Private Debt"*** paper and develops an analysis based on interviews with 20 Private Debt market practitioners and a survey of 85 market participants.

Actions taken during the period

During the 12-month period ending 31 October 2023, we undertook the following activities to respond to market-wide and systemic risks and to promote well-functioning financial markets:

- Continued to monitor and report on our portfolio companies' exposure to market risks (portfolio risk analysis metrics), taking action where appropriate.
- Reviewed and subsequently revised the issues list in Arcmont's Universe of ESG Issues tool to better categorise the most material and relevant ESG risks in our investable universe and deepen our analysis on climate risks. We also added an "ESG Appendix" to our final investment memorandum template which requires the Investment team to evidence that they have considered all of the ESG factors in Arcmont's Universe of ESG Issues list.
- For the first time, published information in line with the Taskforce on Climate-related Financial Disclosures (TCFD) guidelines in our ***2022 Sustainability Report***.
- Our Chief Operating Officer continued his role as a member of the UN PRI PDAC. Collectively, the committee launched an industry-wide survey and published a paper on ESG incorporation in the Direct Lending market.

Progress Review

OBJECTIVES IN 2022 REPORT	STATUS	DETAILS
Continue to commission portfolio reviews in response to market events and trends	Achieved	The Portfolio Management Committee have continued to monitor portfolio risk analysis metrics, taking action where appropriate.
Further enhance our climate risk analysis by onboarding a proxy data provider	Achieved	As previously mentioned, we have successfully onboarded the Insight ESG Outreach Solution. The solution provides us with estimated data for key environmental and social metrics which has ultimately enhanced our understanding of our portfolio companies' ESG profiles.
Join specific UN PRI and NZAMi working groups, with a specific focus on stewardship and climate change	Deferred	During the period, we did not join any working groups. However, this is on the agenda for the year ahead.
Producing TCFD-aligned reporting	Achieved	We are pleased to report that we published information in line with the TCFD guidelines in our ***2022 Sustainability Report***.
Join Net Zero Asset Managers Initiative (NZAMi) if feasible	Deferred	During the year, together with dss+, we assessed the feasibility of joining the NZAMi as there is currently a lack of guidance available for Private Debt managers specifically. Based on the research conducted, we have concluded that the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment's Framework is the most appropriate framework for us to use to set net-zero targets at the fund level. Towards the end of last year, we were informed that the IIGCC intends to publish Private Debt-specific guidance in the near term. More recently, we were informed that the IIGCC is currently establishing a Private Debt working group to develop the guidance. We intend to stay in contact with the IIGCC to closely monitor the progress being made. Once we have developed a credible roadmap to net-zero, we will look to join the NZAMi.
Produce a whitepaper on Net Zero targets for Private Debt asset managers	Deferred	This has been put on hold until the IIGCC's guidance has been published and we have established our approach.
Measure our contribution and effectiveness of our participation in initiatives	Not Achieved	The ability to measure our contribution and effectiveness of our participation in each initiative varies depending on the type of initiative. For the vast majority of the initiatives listed above, it is not possible to measure the extent of our contribution.

Assessment of effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets

To assess our effectiveness in identifying and responding to market-wide and systemic risks, investors can look at our low performance volatility and our demonstrated track record.

In terms of our effectiveness in promoting well-functioning financial markets, it is difficult to measure the extent of our contribution or effectiveness of our participation in the aforementioned initiatives.

There is therefore always scope for improvement, and we intend to get more actively involved in existing and new initiatives to deliver outcomes that mitigate systemic and market-wide risks.

Future actions

In the year ahead, we plan to action the following to further improve our effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets:

- Continue to commission portfolio reviews in response to market events and trends.
- Further enhance our ESG analysis by rolling out an ESG questionnaire to portfolio companies to collect reported ESG data and facilitate tracking fund-level metrics.
- Explore joining specific UN PRI and other working groups, with a specific focus on stewardship and climate change.
- Produce a full TCFD report for FY2023 in 2024 informing readers on the climate-related risks and opportunities we face and the measures we have in place to mitigate them.

Principle 5: Review and Assurance

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

Stewardship policies

We operate in accordance with the below responsible investment policies which apply to all assets under management[14].

POLICY NAME AND LINK	EFFECTIVE DATE	DATE OF LAST REVIEW
ESG Exclusions Policy	March 2018[15]	October 2023
Responsible Investment Policy	July 2013	October 2023
Climate Change Addendum to Arcmont's Responsible Investment Policy	December 2022	To be reviewed by December 2023
Voting Policy (internal)	October 2023	To be reviewed by October 2024

These policies provide transparency on our stewardship framework and serve as a formal guide to readers. Like all Arcmont policies, they are reviewed on at least an annual basis to ensure they remain relevant, appropriate and reflect our responsible investing ambitions. Note that in practice the policies are reviewed and updated more frequently due to the dynamic nature of responsible investment best practices.

As outlined in ***Principle 2: Governance, Resources and Incentives***, we have a robust governance framework in place to ensure these policies are adhered to. Please refer to the section for further details.

CASE STUDY

Reviewing ESG policies to ensure they enable effective stewardship

Following our annual policy review, our Responsible Investment Policy (the "Policy") was revised to better communicate how the UK Stewardship Code 2020 principles are incorporated and reflect the enhancements made to our pre-investment ESG materiality assessment and monitoring process, including Arcmont's revised Universe of ESG Issues list. For further details on our current approach, please refer to the ***Policy*** and ***Principle 7: Stewardship, Investment and ESG Integration***.

[14] Updates to policies apply to funds that are still in their investment periods at the time changes are made. Funds that are no longer investing will not be subject to the new requirements.
[15] https://www.rbcbluebay.com/globalassets/documents/bluebay-controversial-weapons-investment-policy.pdf

CASE STUDY

Implementing new policies to ensure effective stewardship

During the period, we rolled out two new policies to communicate how we address climate change in the investment process and our approach to voting.

Climate Change Addendum	Communicates our commitment to identifying, assessing and managing climate change risks throughout the deal lifecycle.
Voting Policy	Communicates the processes and procedures we have in place to ensure we act in the best interests of our clients in the instance Arcmont is granted voting rights. Note that Arcmont is a lender for most investments rather than an owner and is therefore not typically granted voting rights.

Ensuring our stewardship reporting is fair, balanced and understandable

As further described under ***Principle 6: Client and Beneficiary Needs***, we are committed to providing timely, transparent and comprehensive reporting to our clients on our stewardship activities, both at the corporate and fund levels, giving them clear insights into our processes and activities. To ensure all reporting is fair, balanced and understandable, we follow a stringent review process to ensure that all communications are written in plain language, contain relevant content and are easy to read.

Our internal review process requires at least a four-eye internal review to ensure the information published is complete, accurate and free from errors. We may also leverage external consultants to support the drafting of certain reports. Depending on the content and intended audience, external communications may be reviewed by an external party where we feel it is necessary to ensure compliance with the relevant regions' regulatory requirements.

CASE STUDY

External Review – SFDR Disclosures

The funds Arcmont acts as portfolio manager to are EU domiciled Alternative Investment Funds (AIFs) and are therefore in scope of the EU ESG-related regulations including the Sustainable Finance Disclosure Regulation (SFDR). We included the appropriate Level 2 SFDR disclosures in the relevant funds' 2022 audited accounts which provide transparent information on the sustainability characteristics of the funds, giving readers clear insights into our stewardship activities. These were drafted with support from Luxembourg legal counsel. As part of our year end audit procedures, our auditors reviewed the disclosures to confirm they were consistent with the financial statements and had been prepared in accordance with applicable legal requirements.

CASE STUDY

External Assurance – UN PRI Reporting

As a UN PRI signatory, we are required to submit annual reporting to the initiative on responsible investing activities which is reviewed and assessed. Participating in the reporting process acts as an accountability mechanism as the results of the assessment are made publicly available. During the period, we participated in the 2023 UN PRI reporting cycle covering the 2022 calendar year. Although the results of the assessment are not yet available, participating in the process has helped us to identify areas of improvement against best industry practices which has fed into our objectives for the year ahead. For example, this year we are seeking to develop our approach on sustainability outcomes and implement responsible investment key performance indicators for the relevant employees. We await feedback on our submission. We will subsequently look to take action to address any gaps identified ahead of the 2024 reporting cycle covering the 2023 calendar year.

CASE STUDY

External Assurance – Controls Audit

PwC were engaged to perform a Type 1 controls audit in accordance with both the International and English standard for assurance reports on internal controls. The primary goal of delivering this report is to provide a comprehensive description of the control environment and internal controls that underpin Arcmont's portfolio management services. The report will include a review of the processes and controls Arcmont has implemented in order to incorporate ESG factors into investment analysis and decisions. Going forward, Arcmont will work to deliver an annual Type 2 report, giving users comfort on the design and operating effectiveness of the controls over a period of time.

Assessing the effectiveness of our stewardship activities

During the 12-month period ending 31 October 2023, we undertook the following activities to ensure our stewardship approach is relevant and successfully implemented across our investment process:

- Reviewed our responsible investment policies, and subsequently revised our ***Responsible Investment Policy***. Please refer to the above case study for further details.
- Implemented two new stewardship policies – a Climate Change Addendum and Voting Policy – to better communicate our approach to these two areas. Please see the above case study for further details.
- Participated in the 2023 UN PRI reporting cycle (covering the 2022 calendar year). Please see the above case study for further details.
- Engaged PwC to perform a Type 1 internal controls audit to give our investors confidence that the processes and controls detailed in our policies are adhered to.
- Engaged external legal counsel to review our Level 2 Sustainable Finance Disclosure Regulation (SFDR) disclosures to ensure they were in line with the regulatory requirements. Please see the above case study for further details.
- Reviewed the feedback received from the Financial Report Council (FRC) on our ***2022 Stewardship Report*** and reperformed a stewardship gap analysis prior to drafting this report.
- Reperformed an internal ESG materiality assessment together with our external ESG consultant to ensure our efforts and resources are focused in the right areas. We subsequently added a new priority area for 2022/2023. Please refer to ***Principle 1: Purpose, Strategy and Culture*** for further details.

During the implementation of these activities, we have identified a number of areas where refinements will enhance our stewardship policies and processes. These improvement areas are detailed throughout this report.

Progress Review

OBJECTIVES IN 2022 REPORT	STATUS	DETAILS
Address the improvement areas identified on the back of our UN PRI assessment ahead of the next reporting cycle	Achieved	During the year we worked to address the areas of improvement identified from our 2021 UN PRI assessment (covering the 2021 calendar year) that remained relevant to our current process. We were specifically focused on improving our climate change approach and are pleased to report we actioned the following at the investment level: • Implemented a qualitative climate risk assessment into our pre-investment ESG due diligence process to ensure that climate risks are carefully evaluated and integrated into our investment decision-making process. • Revised our sustainability-linked margin ratchet programme[16] to specifically target borrowers' climate change mitigation practices, with a particular focus on encouraging them to measure, publicly disclose and ultimately reduce their GHG emissions in line with the Paris Agreement. • Published a ***Climate Change Addendum to our Responsible Investment Policy*** to communicate our commitment to identifying, assessing and managing climate risks throughout the deal lifecycle. Subsequently, in September 2023, we submitted our first mandatory PRI reporting.
Implement a dedicated Voting Policy	Achieved	Although Arcmont is a lender for most investments as opposed to an owner and therefore is not typically granted voting rights, we implemented a Voting Policy to communicate the policies and procedures we have in place to ensure we act in the best interest of our clients in the instances where we are granted voting rights.
Implement a dedicated Climate Risk Management Policy	Achieved	In December 2022, we rolled out a ***Climate Change Addendum*** to our Responsible Investment Policy to outline the extent and process of how we identify, assess and manage climate change in the investment process.
Implement a dedicated Stewardship Policy	Achieved	Rather than publish a dedicated Stewardship Policy, we updated our ***Responsible Investing Policy*** in October 2023 to better communicate how we have integrated the UK Stewardship Code 2020 principles into our investment process.

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

OBJECTIVES IN 2022 REPORT	STATUS	DETAILS
Review all stewardship policies on an annual basis	Achieved	Our ESG Exclusions Policy and Responsible Investment Policy were reviewed during the period. In addition, we implemented two new policies – our Climate Change Addendum and Voting Policy. Please refer to the case studies above for further details.
Explore opportunities for third-party assurance procedures	Achieved	During the period we explored getting our Level 2 SFDR disclosures assured. However, given how nascent SFDR assurance practices were at the time, we decided to put this on hold. We intend to re-engage with our auditors to discuss FY2023 SFDR assurance.

Future actions

In the year ahead, we plan to action the following to strengthen our stewardship policies and improve our stewardship policies and processes:

- After our UN PRI results have been received, address the improvement areas identified ahead of the next reporting cycle.
- Review our responsible investment policies on annual basis, making updates where necessary to integrate evolving best practices and communicate the enhancements made to our processes.
- Explore opportunities for third-party assurance procedures, including SFDR and PRI assurance.
- Perform a Type 2 controls audit in 2024, giving users comfort on the design and operating effectiveness of the controls over a period of time.

Investment Approach

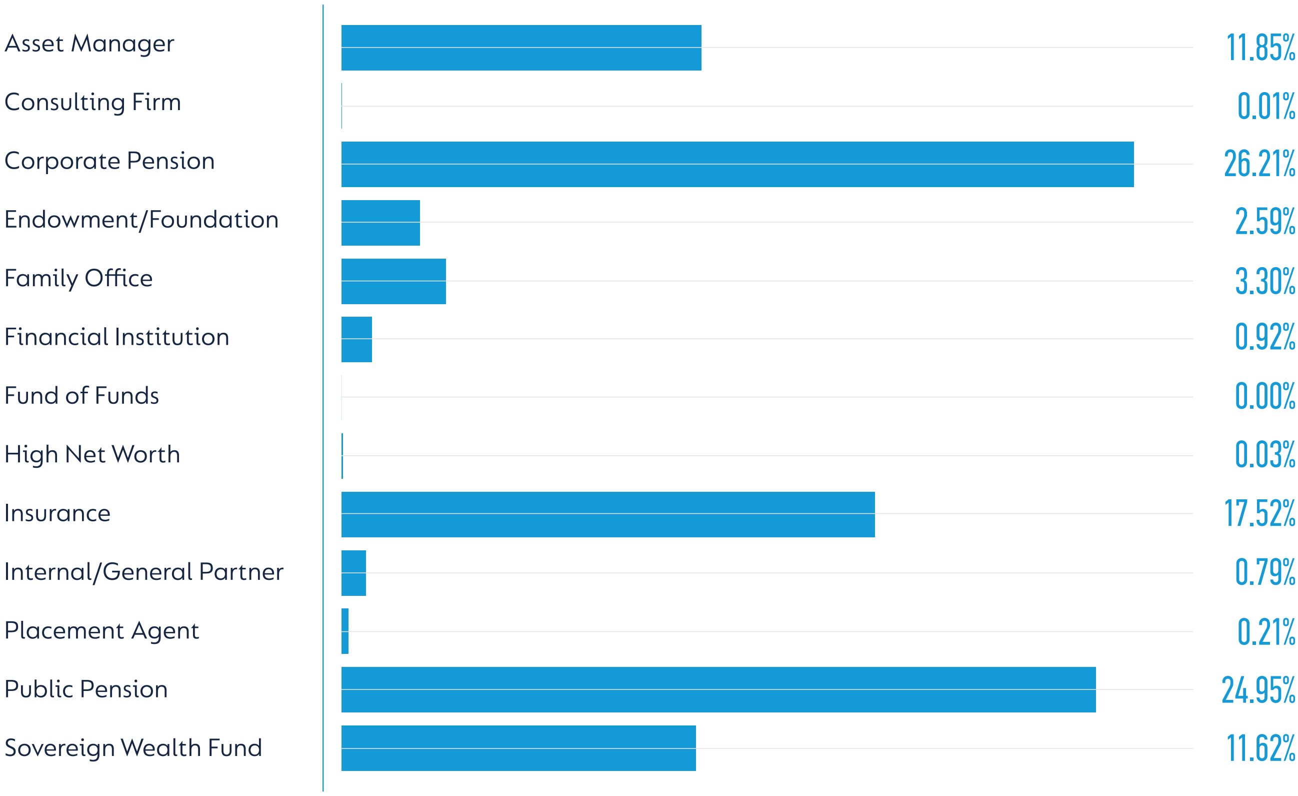
Principle 6: Client and Beneficiary Needs

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

Investor base breakdown

Arcmont is one of Europe's leading Private Debt asset managers with over **€25 billion**[17] of capital raised from over **390 investors** since inception, with a broad investor base covering institutional, pension and insurance clients.

INVESTORS BY TYPE[18]



[17] Includes estimated leverage and separately managed accounts.
[18] Committed capital to date including estimated leverage.

INVESTORS BY GEOGRAPHY[19]

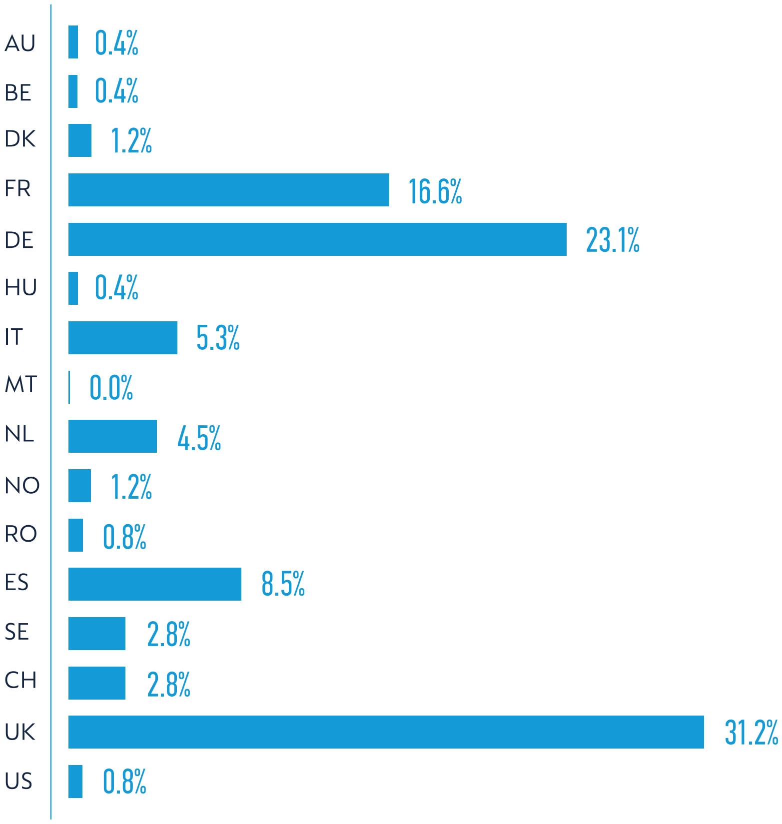
Australia	1.47%
Austria	0.63%
Bahrain	0.03%
Belgium	0.87%
Bermuda	0.19%
Brazil	0.05%
Canada	6.33%
China	2.26%
Cyprus	0.08%
Denmark	0.06%
Finland	5.52%
France	0.28%
Germany	8.32%
Ireland	0.12%
Israel	3.86%
Italy	3.38%
Japan	5.46%
Kuwait	2.07%
Luxembourg	0.04%
Netherlands	3.96%
Norway	1.40%
Saudi Arabia	0.16%
Singapore	7.10%
South Korea	3.60%
Spain	0.22%
Sweden	3.83%
Switzerland	1.64%
Taiwan	0.47%
UAE	0.11%
UK	19.53%
US	16.96%

[19] Committed capital to date including estimated leverage.

Asset under management breakdown

As of 30 September 2023, we have committed **€24.7 billion** in over **192 portfolio companies** across **16 geographies**[20].

AUM BY GEOGRAPHY



	€bn
AU Australia	0.1
BE Belgium	0.1
DK Denmark	0.3
FR France	4.1
DE Germany	5.7
HU Hungary	0.1
IT Italy	1.3
MT Malta	0.0
NL Netherlands	1.1
NO Norway	0.3
RO Romania	0.2
ES Spain	2.1
SE Sweden	0.7
CH Switzerland	0.7
UK United Kingdom	7.7
US United States	0.2
Grand Total	**24.7**

AUM BY STRATEGY

	€bn
A Capital Solutions	0.8
B Direct Lending	12.2
C Senior Lending	11.7
Grand Total	**24.7**

AUM BY ASSET TYPE

	€bn
A Debt	24.0
B Equity	0.7
Grand Total	**24.7**

[20] Country of risk. Calculated using Gross Cost Amount EUR.

Investment time horizon we consider appropriate to deliver to the needs of clients

The majority of funds offered by Arcmont are closed-ended, with investment periods of three to four years, followed by a two- or three-year harvesting period. These timeframes were designed based on the team's experience and investment realisation timeframes as well as our investors' target returns. Furthermore, our funds allow for a minimum of two one-year extensions to ensure our clients receive the most appropriate value for their investments with an orderly exit for investments that remain unrealised, thus avoiding forced liquidations that are not in the best interest of our portfolio companies and clients. In addition to closed-ended commingled funds, Arcmont also manages certain separately managed accounts ("SMAs"). The timeframe for each SMA is designed to specifically meet the needs of the underlying investor and includes the possibility for the SMA to be an evergreen structure to allow the vehicle to maintain its underlying exposure through recycling.

We will also be expanding its product range over the next 12 months to offer commingled fund vehicles with greater flexibility on term and liquidity, to address the preferences and requirements of its increasingly diversified client base.

How we have taken account of the views of investors

- Investor due diligence

Prospective investors undertake detailed due diligence of Arcmont prior to making a commitment. This gives them a clear insight into our operations and investment processes, including those relating to our stewardship activities. Any additional investor requirements are documented in a side letter. This means that from the outset, investors' expectations are clearly documented and understood.

- Ongoing investor communication

We have regular and ongoing dialogue with our investors and receive regular investor questions and data templates to complete. We therefore have good insight into their evolving needs and are able to easily identify areas of interest. During the period, given the increasing questions relating to how climate change is considered in the investment process, we published a dedicated ***Climate Change Addendum*** to our Responsible Investment Policy in December 2022. In addition, given the increase in voting-related questions, although Arcmont does not typically make investments that grant us the opportunity to vote, we implemented an internal Voting Policy to outline the processes and procedures we have in place to ensure we act in the best interest of our clients if we are given the opportunity to vote.

- Product Offering

As noted above, we have a diverse global investor base, and while unified by their appetite to invest in Private Debt, many of our investors have specific aims or requirements driven by their type, geography or strategic goals.

In recognition of this, we continue to invest significant time and resources into enhancing our product offering to meet these diverse objectives, tailoring both the commercial features of our products and their structures. We are therefore able to offer investors a range of options, from which they can select a combination of features to best suit their requirements. For further information on our product offering, please contact **clientservices@arcmont.com**.

Communications to investors about our stewardship and investment activities

The Client Services team manages all investor relations during the life of our funds and beyond, leveraging the firm's expertise and resources to provide excellent servicing. Where investor requests relate to our responsible investment activities, our Head of Corporate Sustainability and Responsible Investing or Chief Operating Officer (chair of the ESG Committee) will assist as subject matter experts. In addition to the unfettered access to the Client Services team and receiving regular responsible investment reporting (see details below), we host regular investor updates, via video-link, and in-person via our Annual General Meetings, during which our responsible investment activities are discussed.

Type of stewardship information provided, methods and frequency of communication

At Arcmont, we are committed to providing timely, transparent and comprehensive reporting to our investors on our responsible investment activities, giving them clear insights into our stewardship activities.

As detailed in our ***Responsible Investment Policy***, we provide our investors and stakeholders with the below reports which detail our responsible investment activities.

- Product Level Reporting

The funds' quarterly ESG reports contain information on our approach to responsible investment, details of any material ESG events in the period (if any), and a summary of the ESG characteristics of the fund. The reports also include each portfolio company's ESG Risk Score, updates on the material ESG risks identified, details of engagement efforts, as well as alignment to the SDGs, if applicable.

Arcmont also ensures that the required Sustainable Financial Disclosure Regulation (SFDR) disclosures are published in the relevant funds' annual audited financial statements.

- Public Disclosures

We produce the following reports on an annual basis which are made publicly available.

– **Corporate Sustainability Report:** Contains information on our sustainability strategy, progress made during the year and objectives for the year ahead.

– **UN PRI Transparency Report:** As a signatory to the UN PRI, we are required to submit a Transparency Report to the initiative[21].

– **Stewardship Report:** As a UK Stewardship Code 2020 signatory, we are required to submit a Stewardship Report to the Financial Reporting Council (FRC) to maintain our signatory status.

CASE STUDY

Product level GHG Emissions Reports

During the reporting period, in response to increasing investor demand and as a result of us onboarding the Insight ESG Outreach Solution (see ***Principle 2: Governance, Resources and Incentives***), we began producing product-level GHG emissions reports for our investors on request. The reports detail the emissions associated with our products and contain metrics that are in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. This allows our investors to account for their GHG emissions, generate insight into their exposure to key climate-related risks and opportunities and comply with increasing disclosure requirements.

[21] Arcmont became an independent signatory to the UN PRI in December 2019. Prior to this, the firm was a signatory under BlueBay. New signatories have a one-year grace period whereby the first reporting cycle is voluntary. Therefore, Arcmont was not required to submit a Transparency Report until 2022, however, due to administrative delays with the 2022 reporting cycle, the 2023 reporting cycle was the first Arcmont was required to participate in.

Actions taken during the period

During the 12-month period ending 31 October 2022, we undertook the following activities to strengthen our insight of investor views related to stewardship:

- Our Chief Operating Officer (chair of the ESG Committee) and Head of Corporate Sustainability and Responsible Investing regularly spoke to investors, consultants and peers on responsible investment topics.

- Centrally stored questions from requests for proposals and questionnaires, including our responses, to allow us to identify key topics and trends that were of particular interest to our investors.

- Performed a review of existing and prospective investors' responsible investments information requests, to identify areas of interest to address.

- Continued to invest time and resources into enhancing our product offering to better meet investors' needs.

- Continued to enhance and develop our ESG reporting to better reflect our investors' requirements. Please refer to the above Product Level GHG Emissions Report Case Study as an example.

Progress Review

OBJECTIVES IN 2022 REPORT	STATUS	DETAILS
Explore seeking regular direct investor feedback e.g., via an investor-wide survey	Deferred	Although not completed during the reporting period, this has been discussed and is on our agenda for the year ahead.
Explore enhancing and standardising our engagement data and case-study reporting through alignment with disclosure frameworks from the Investment Consultants Sustainability Working Group (ICSWG) and the Pensions and Lifetime Savings Association (PLSA)	Achieved	We are pleased to report that we enhanced our engagement reporting, specifically aligning with the disclosure framework from the ICSWG.
Adopt a Voting Policy in response to investor demand	Achieved	Although Arcmont does not typically make investments that grant us the opportunity to vote, we implemented an internal Voting Policy to outline the processes and procedures we have in place to ensure we act in the best interest of our clients when we are given the opportunity to vote.

Future actions

In the year ahead, we plan to action the following to further strengthen our insight of investor views related to stewardship:

- Continue to explore seeking regular direct investor feedback e.g., via an investor-wide survey.
- Continue to keep our investors well-informed via our extensive reporting and regular updates.
- Continue to enhance and develop our ESG reporting to better reflect our investors' requirements. We are specifically focused on providing more quantitative ESG data.
- Explore providing investors with the European ESG Template (EET) in response to increasing demand. We recognise that this will support a standardised and harmonised exchange of ESG-related information and support.
- Publish annual product-level GHG emissions reports as part of our standard reporting.
- Publish a full TCFD report for FY2023 in 2024 in line with Financial Conduct Authority (FCA) requirements to provide readers with confidence that our climate-related risks are appropriately assessed and managed.
- Continue to explore new product opportunities to suit our evolving investor requirements.

Principle 7: Stewardship, Investment & ESG Integration

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

ESG factors are a driver of investment value and a source of investment risk. They are therefore systematically considered at every stage of the deal lifecycle to protect the value of our clients' assets. Our approach is documented in our ***Responsible Investment Policy*** and applies to all assets under management[22].

Processes used to integrate stewardship and investment

Below we outline our ESG integrated investment and portfolio management process. Note that every investment undergoes this process, regardless of asset type and geography.

1 Negative Screening

Opportunities are first screened against Arcmont's ESG Exclusions Policy and screened for ESG risk incidents using RepRisk.

2 ESG Due Diligence

An ESG materiality assessment is conducted and the opportunity is assigned an ESG Risk Score. As part of this, a Good Governance assessment is undertaken. The analysis is documented and then sent to dss+ who perform an independent review and agree the score.

3 Final Investment Decision

The Investment Committee consider the credit analysis including the results of the ESG due diligence before making their decision to pursue the opportunity.

4 Deal Approval Committee

To obtain Deal Approval Committee approval, the deal team must populate a checklist that contains specific ESG questions relating to Arcmont's responsible investment policies and investor ESG requirements.

5 Monitoring

The deal teams maintain an active dialogue with portfolio companies and sponsors during the holding period. A formal review takes place on a quarterly basis where any ESG updates are documented and the ESG Risk Scores are adjusted where necessary. This is then shared with dss+ who independently review the updates and agree the scores.

6 Engagement (Stewardship)

A sustainability-linked margin ratchet is offered to every new primary borrower since April 2021[23].

7 Reporting

Quarterly product-level ESG reporting is provided to investors. The reports contain comprehensive ESG information from the due diligence, monitoring and portfolio management stages.

- Pre-investment
- Post-investment

[22] Updates to policies apply to funds that are still in their investment periods at the time changes are made. Funds that are no longer investing will not be subject to the new requirements.

Material ESG issues

In conjunction with subject matter experts, we created a bespoke tool titled "Arcmont's Universe of ESG Issues". The tool captures the most relevant and most material ESG issues for the companies in Arcmont's investable universe and was built with reference to Sustainability Accounting Standards Board (SASB) Standards' issues categories as well as other guidance materials. These issues are prioritised for assessing investments, both at the pre-investment stage and during our holding period. The tool is reviewed on an annual basis to ensure the issues remain appropriate.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
• Biodiversity and Land Use	• Access and Affordability	• Business Ethics
• Climate Risk (Physical)	• Community Relations	• Enterprise Risk Management
• Climate Risk (Regulatory)	• Customer Privacy and Data Security	• Management of the Legal and Regulatory Environment
• Climate Risk (Transitional)	• Employee Wellbeing, Health and Safety	• Ownership and Control
• Energy Management	• Human Capital Development	• Tax Transparency and Accounting
• Material Sourcing and Efficiency	• Labour Practices and Human Rights	
• Toxic Emissions and Waste Management	• Product Design and Lifecycle Management	
• Water Stress	• Product Quality and Safety	
	• Selling Practices and Product Labelling	
	• Supply Chain ESG Standards and Monitoring	

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

During the reporting period, we revised the issues list to better categorise the issues faced by companies in our investment universe and enhance our assessment of climate risk by splitting out physical, regulatory and transitional risks.

We also developed an "ESG Appendix Generator" to enhance and streamline our ESG due diligence process. The Appendix includes all the issues in Arcmont's Universe of ESG Issues list. By selecting an investment's industry classifications (GICS and SASB), the Generator will highlight potential material issues (leveraging e.g. MSCI and SASB materiality matrixes, SASB's Climate Risk Technical Bulletin, Arcmont's bespoke GICS mapping tool and other sources) and provide corresponding questions for the deal team to address. The questions consider a company's business activities, geographic location and other pertinent factors that were determined by our external ESG consultant. This helps the deal team determine whether the suggested issue is material for the business in question. The deal teams answer the questions using the information available as part of the due diligence process and information that is publicly available. This tool ensures a systematic evaluation of ESG factors during due diligence.

Once material issues have been identified for an investment, they will be monitored throughout our holding period. On a quarterly basis, a formal review takes place where the deal teams ask for updates on each issue and the ESG Risk Scores are updated accordingly. If a new material issue arises during our holding period, the score will be adjusted appropriately and the issue will be monitored going forward.

Examples of how information gathered through stewardship has informed acquisition, monitoring and exit decisions

- **ESG Exclusions Policy used to inform investment decisions**

At the deal origination stage, business activities that are deemed too risky from an ESG risk perspective are filtered out by an initial screening framework. In general, we believe it is preferable to engage with companies on ESG matters to try and correct any controversial practices and improve a company's ESG risk profile. However, at the deal origination stage, we believe that some activities are fundamentally counter to our responsible investment objectives and those of our investors. We, therefore, elect to limit our exposure to borrowers engaging in these activities using a combination of activity specific and principles-based exclusions across all our funds as detailed in our ***ESG Exclusions Policy***.

CASE STUDIES

Deals rejected due to a lack of alignment with our ESG Exclusions Policy

COMPANY OVERVIEW	EXCLUSION CATEGORY	DETAILS	INVESTMENT DECISION
Provider of optical systems and components for semiconductor	Conventional Weapons	The company produces riflescopes which are scopes specifically designed for rifles, a type of conventional weapon. Our ESG Exclusions Policy prohibits investments in companies that produce, store, or trade conventional weapons or components specifically designed for such weapons.	Decline
National lottery operator of an EU country	Gambling	The company is a national lottery operator that also generates revenues from scratch cards and 'Instant Win Games'. While national lotteries are specifically allowed under our ESG Exclusions Policy, we are prohibited from investing in a company that generates more than 25% of revenues from gambling which was the case here.	Decline
Aftermarket provider of aircraft tyres and related services	Conventional Weapons	The company specifically designs and manufactures tyres for its clients' aircrafts, including combat aircrafts, a type of conventional weapon. Our ESG Exclusions Policy prohibits investments in companies that produce, store, or trade conventional weapons or components specifically designed for such weapons.	Decline
Supplier of natural and synthetic "base aromas"	Tobacco	The company produces products used exclusively in cigarettes and e-cigarettes. Our ESG Exclusions Policy prohibits investments in companies generating any revenue from the production of components exclusively designed for tobacco products.	Decline

- RepRisk used to inform acquisition and monitoring decisions

As mentioned in ***Principle 2: Governance, Resources and Incentives***, we utilise RepRisk to source additional information on companies' business conduct. The platform allows us to **(i)** identify industry-specific material ESG risks in line with the SASB standards, **(ii)** assess companies' ESG risks through RepRisk's SDG risk lens and **(iii)** monitor company ESG risks daily via a customisable watchlist and a tailored email alert service. This allows us to make timely, better-informed investment and monitoring decisions as the platform uses artificial intelligence to screen our companies daily.

During the 12-month period ending 31 October 2023, every existing and prospective borrower was screened using RepRisk.

In terms of investment decision making, should a controversy be identified by RepRisk prior to investment, we will conduct further due diligence. We specifically review the severity and frequency of the event, the company's degree of complicity, as well as the measures implemented to prevent repeats of the incident. If preventative measures are not adequate to prevent a reoccurrence, the investment will not be pursued. In terms of monitoring activities, RepRisk prompts us to engage with borrowers on issues in a timely manner.

CASE STUDY

ESG risk incidents identified by RepRisk

During the reporting period, RepRisk identified three risk incidents for a prospective investment. Although the company has a RepRisk rating of AA (low ESG risk exposure), this prompted the Responsible Investing team and deal team to perform further due diligence which included reading the articles flagged and performing desk base research to assess the company's involvement and the severity of incidents. Based on the due diligence conducted, we ultimately concluded that that the incidents flagged related to wider industry trends, rather than the borrower specifically. Nonetheless we reviewed the information received as part of the transaction. Ultimately, we were comfortable that the company has appropriate risk management practices in place to address the issues flagged.

- ESG Risk Score used to inform **acquisition and monitoring decisions**

Pre-investment Scores

Every prospective investment undergoes a ESG materiality assessment and is assigned an ESG Risk Score. The score ranges from **+6 (Very Low) to -6 (Very High)** and captures the overall likelihood of a negative financial impact on the investment due to ESG risks, given the information available. Below we outline the steps taken and resources used to generate the scores.

Material ESG Risk Identified	Risk Exposure Assessed	Risk Management Practices Assessed
SASB Standards, SASB Climate Risk Technical Bulletin and Arcmont's internal GICS mapping tool	Geography, business model and past controversies	Policies, controls and management of past controversies

↓

ESG Risk Score

Quantifies the likelihood of a financial impact on the investment due to ESG risks
-6 (very high) to +6 (very low)

We have a policy not to invest in a company with a score of less than -3 (High) to protect the value of our clients' assets. This represents a company that is highly exposed to ESG risks, and those risks are not sufficiently managed.

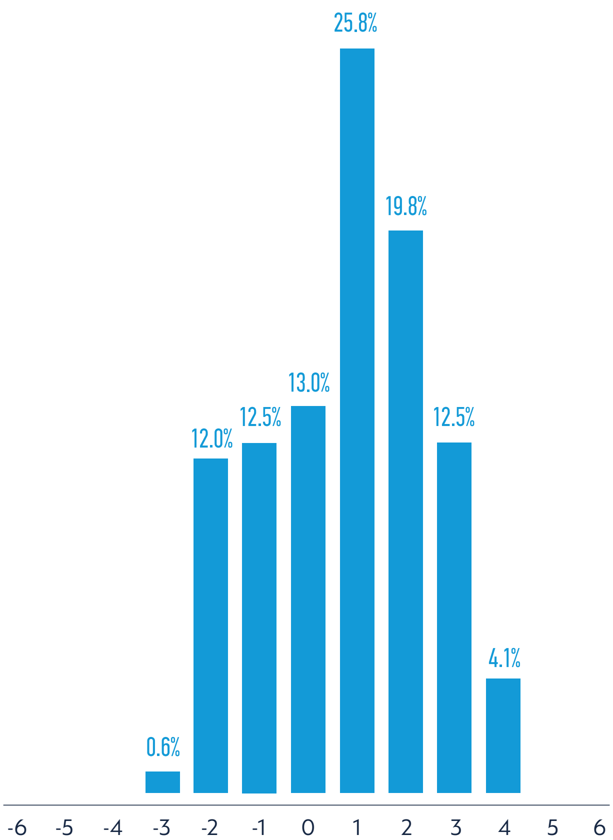
During the 12-month period ending 31 October 2023, no deals were rejected due to their ESG Risk Scores. Please note this is not an indication of a lack of effectiveness, in fact this reflects the strength in our ESG integration as our Responsible Investing team and external ESG consultant are engaged from the outset to form a view where there are material ESG concerns, which is more often than not, conservative.

Post-investment Scores

During our holding period, the deal teams maintain an active dialogue with borrowers and a formal review takes place on a quarterly basis where they engage with portfolio companies on the material ESG issues identified. Subsequently the ESG Risk Scores are updated. This allows us to track and closely monitor the ESG profiles of our portfolio companies over our holding period and move to take appropriate action should the score continue to lower to protect our clients' interests.

Please note that the ESG Risk Scores of our investments are generally on an upwards trajectory due to borrowers and sponsors increasingly recognising the importance of managing ESG risks. Please see below a summary of the ESG Risk Scores of our portfolio companies as of 30 June 2023[24].

OVERALL ESG SCORES



[24] The 30 September 2023 review cycle was in progress at the time of writing. Cost Amount GIR EUR.

• ESG Questionnaire to inform monitoring decisions

During the reporting period, to enhance our monitoring effort, we prepared to roll out an ESG questionnaire to all primary borrowers via the eFront Insight ESG Outreach Platform. The questions directly reflect the ***UN PRI's Private Credit (PC)-Private Equity (PE) ESG Factor Map*** and the Sustainable Finance Disclosure Regulation (SFDR) Principle Adverse Impact (PAI) Indicators. Collecting this information will allow us to better understand our portfolio companies' ESG profiles and perform more targeted engagements. Please see ***Principle 9: Engagement*** for further details. The questionnaire is due to be rolled out in November 2023.

Ensure service providers have received clear and actionable criteria to support the integration of stewardship and investment, including material ESG issues

Prior to onboarding services providers to support our responsible investment efforts, we assess their abilities to support our stewardship approach and ambitions. This will include a deep dive into the relevant service areas, including but not limited to processes, technology, quality of data, staff and senior management and platform useability. Further, we have contracts in place detailing our expectations and scope of work. This ensures they have clear and actionable criteria and can be held accountable.

CASE STUDY

Proxy provider

During the reporting period, we actively sought an ESG proxy provider with the objective to enhance our ESG analysis and reporting. Although we considered a number of providers, each with their own bespoke offering, and trialled various solutions, we ultimately selected a provider who had the ability to provide proxy ESG data as well as support us in other key areas we were focused on – collecting reported ESG data from investees and enhancing our reporting. We also valued that they were actively enhancing their offering in the areas that we are focused on developing e.g. Sustainable Finance Disclosure Regulation (SFDR) Principal Adverse Impact (PAI) indicators.

Principle 8: Monitoring Managers and Service Providers

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

We use a variety of service providers to support our operations and the services provided to our clients. As outlined in ***Principle 2: Governance, Resources and Incentives***, we utilise the below service providers to support us with our stewardship-related activities:

- RepRisk
- Insight ESG Outreach Solution
- dss+
- EcoAct

We have contracts in place with each provider detailing the scope of work. This ensures they have clear and actionable criteria and can be held accountable.

Note that as a Private Debt asset manager, we have limited opportunities to participate in votes and therefore do not utilise external proxy voting services.

Supplier Score Card

During the period we rolled out a supplier scorecard for every service provider that **(i)** we rely on for the performance of operational functions which are important for the performance of our relevant services and activities or **(ii)** is deemed to be critical to Arcmont's regulated activity. The scorecard includes an inherent risk assessment covering six key areas (criticality, dependence, financial commitment, performance, regulatory impact and business impact) as well as a control risk assessment to determine an overall Supplier Risk Rating. This determines the extent and frequency of due diligence going forward. At the time of drafting, all service providers had been through a criticality assessment. For all critical or important service providers, a scorecard was produced and each provider was assigned a risk rating.

Vendor Due Diligence

To ensure the information of our business, investors and portfolio companies is secure, annual cybersecurity due diligence is performance on vendors holding material amounts of sensitive information. During the reporting period, ACA Aponix performed cybersecurity due diligence on our key vendors to ensure appropriate safeguards are in place to protect our data as well as the data of our investors and portfolio companies. First, all vendors were classified into certain categories based on the type and volume of data handled. Next, a tailored questionnaire was sent to each vendor. Once the responses were received, ACA Aponix reviewed the information, followed up where required and conducted their own tests.

Engagement

Principle 9: Engagement

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

Quarterly Dialogue

As noted in ***Principle 7: Stewardship, Investment and ESG Integration***, we conduct an ESG materiality assessment on every prospective borrower as part of our routine pre-investment due diligence process. On the back of this assessment, financially material ESG issues are identified and are monitored throughout our holding period.

On a quarterly basis, the deal team will formally engage with portfolio companies, asking for updates on the material issues that have been identified as well as an update on general ESG performance and objectives. This provides a natural mechanism for stewardship, particularly targeted engagement (see below). Note that at Arcmont, the deal team that execute the transaction are the same team that will monitor the portfolio company over the life of our investment. We believe this structure fosters better relationships, improving the likelihood of the success of our targeted engagements.

Targeted Engagements

We leverage the ICSWG definition of "engagement" which is "purposeful, targeted communication with an entity (e.g., company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). Regular communication to gain information as part of ongoing research should not be counted as engagement[25]."

As a Private Debt asset manager, we have less influence over our portfolio companies than managers of other asset classes. To gain influence over our portfolio companies' ESG management practices and encourage them to improve, we offer certain borrowers sustainability-linked margin ratchets i.e. provisions that tie the rate of interest a borrower pays to pre-agreed key performance indicators ("KPIs") and sustainability performance targets ("SPTs").

We endeavour to engage with every new primary borrower since April 2021, regardless of the size of our holding. To this end, we have a policy in place to offer a sustainability-linked margin ratchet to every **(i)** new primary borrower since April 2021 and **(ii)** existing primary borrower who is provided additional financing after April 2021. As at 30 September 2023, 29% of current committed capital[26] is linked to sustainability-linked provisions.

Note in some instances, Arcmont's investment may include an equity element. In the rare instances where the participating funds that Arcmont acts as Portfolio Manager to hold, in aggregate, 20% or more of the borrower's equity, a tailored ESG engagement plan will be offered instead of a ratchet[27]. The engagement plans focus on performance gaps and will include at least one climate change related KPI. Participating companies are required to report on measures implemented to improve ESG performance and provide performance data annually.

Every ratchet is comprised of a number of KPIs and SPTs, however, the number of each varies per investment, as does the financial incentive which is determined based on the size of our holding and the ambition of the plan.

[25] *ICSWG Engagement Reporting Guide.*
[26] Cost Amount GIR EUR.
[27] Tailored ESG engagement plans are voluntary and portfolio companies may choose not to participate.

To ensure the integrity of our offering, we follow the Loan Market Associations' Sustainability-Linked Loan Principles to the extent possible. This means we prioritise KPIs that are:

- Relevant, core and material to the borrower's overall business, and of high strategic significance to the borrower's current and/or future operations;
- Measurable or quantifiable on a consistent methodological basis; and
- Able to be benchmarked (i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT's level of ambition).

At the time of implementation, we endeavoured to create a bespoke plan for every participating borrower, targeting a specific material environmental and/or social issue a borrower faced, based on the results of the pre-investment ESG due diligence. However, in July 2022, in support of the transition to a net-zero economy, we revised the programme to specifically target borrowers' climate change mitigation practices. We now endeavour to include a climate change-related key performance indicator in every ratchet we implement and have a specific focus on encouraging borrowers to measure, publicly disclose and reduce their greenhouse gas (GHG) emissions. Not only does this financially incentivise portfolio companies to reduce their GHG emissions, but it also helps mitigate a systemic risk, improves sustainability disclosures across a wide range of industries and allows us to collect quality climate emissions data.

When selecting other KPIs to be included, we pursue a materiality-first approach focusing on the issues that are likely to have the most significant financial impact, based on the result of the pre-investment ESG materiality assessment. This approach ensures every KPI is tailored to the characteristics of the portfolio company. We also prioritise systemic issues that are relevant to each borrower, including human rights, cybersecurity and biodiversity.

During the 12-month period ending 30 September 2023, we agreed and documented 11 ratchets, 10 of which are linked to at least one climate key performance indicator, bringing the total number signed to 19.

During the 12-month period ending 30 September 2023, three borrowers met a SPT. Please note the first sustainability performance target is typically tested a year after the ratchet agreement has been signed.

Please see below examples of our sustainability-linked margin ratchets as well as the outcomes.

CASE STUDY

Encouraging the use of recycled raw material inputs

We agreed a sustainability-linked margin ratchet with a company that produces polyethylene packaging for the food and hygiene sectors. At the time the ratchet was agreed, only parts of the group were tracking the share of recycled raw materials used for non-food packing. In 2020, these parts of the group used c. 20% of recycled raw materials in non-food packaging. We saw an opportunity to encourage the company to do more within an accelerated timeline. We therefore designed and implemented a ratchet that financially incentivises the company to increase the share of recycled raw materials used for non-food packaging across the group.

The ratchet was discussed as part of the original deal documentation and signed and documented in December 2021 to allow time to find meaningful targets with management. We are pleased to report that the company has met all three of the sustainability performance targets set and has therefore been awarded the agreed margin discount.

CASE STUDY

Encouraging GHG emissions intensity reductions

We agreed a sustainability-linked margin ratchet with a company that provides early education to children in the UK. At the time the ratchet was agreed, the company was required to measure its Scope 1 & 2 emissions annually as part of its Streamlined Energy and Carbon Reporting (SECR), however, had not set reduction targets. We therefore designed and implemented a ratchet that financially incentivises the company to reduce its GHG emissions intensity per child at a rate that is 1.5 degrees aligned, as calculated by the Science-Based Target Initiative's (SBTi) Target Setting Tool version 2.0 (i.e. 6.26% p.a.).

Discussions began in January 2022. The ratchet was agreed in October 2022 and was documented in December 2022. The first test date has passed (September 2023) and we are pleased to report that the company has met its first reduction target. It has therefore been awarded with the agreed discount on margin.

CASE STUDY

Encouraging renewable energy use

We agreed a sustainability-linked margin ratchet for a global retail company portfolio company that requires it to increase its renewable energy ratio. At the pre-investment stage, we became aware that 100% of the company's energy came from non-renewable sources. Given the vast scale of its operations – 21 retail stores in Australia, 14 in the USA, and 8 in the UK and Europe, and 166 production sites across 16 countries – we deemed this to be a material issue for the business, especially in light of increasing energy prices and climate regulations in its core markets.

Discussions began in December 2021 and the ratchet was documented in August 2022. We are pleased to report that the company met the first Renewable Energy Ratio target at the first test date (November 2022). It was therefore awarded the agreed discount on margin.

CASE STUDY

Encouraging GHG emissions intensity reductions

We agreed a sustainability-linked margin ratchet with a UK accountancy firm during the reporting period. At the time the ratchet was agreed, the company had been measuring its emissions since FY20. However, this data was internally calculated and had never been verified. The Scope 3 emissions were also incomplete, i.e. only certain elements of each category were measured, including Categories 5 & 6. In addition, the company had also not set GHG emissions reduction targets. We therefore designed and implemented a ratchet that financially incentivises the company to reduce its Scope 1 & 2 GHG emissions intensity as well as its Scope 3 categories 5 & 6 GHG emission intensity (two material categories), in line with the Paris Agreement. The portfolio company was happy to agree as our proposal was in line with their own sustainability objectives.

Discussions began in July 2023 and the ratchet was documented in August 2023. The first test date has not yet passed (April 2024) so we are currently unable to provide details on the outcome of the engagement. Nonetheless, by signing into the agreement, the portfolio company demonstrated its commitment to meeting the objectives set.

Actions taken during the period to improve our engagement approach

During the 12-month period ending 31 October 2023, the ESG Committee made the decision to offer a ratchet to every existing primary borrower a ratchet when additional financing is provided to them. The Committee made this decision in an attempt to gain influence over a greater number of companies.

Also during the period, as mentioned in ***Principle 7: Stewardship, Investment and ESG Integration***, we prepared to roll our an ESG questionnaire to all primary borrowers with the objectives to better understand their ESG profiles. The questions directly reflect the UN PRI's ***Private Credit (PC)-Private Equity (PE) ESG Factor Map*** and the Sustainable Finance Disclosure Regulation (SFDR) Principle Adverse Impact (PAI) Indicators. Although we do not expect our all companies to be able to answer every question, it will highlight areas for improvement allow us to conduct targeted engagements. The questionnaire is due to be rolled out in November 2023.

Principle 10: Collaboration

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

At Arcmont, we are committed to working with others to promote stewardship within our investment activities. This includes other lenders, Private Equity owners ("sponsors") in addition to wider stakeholders.

Below we outline instances where we engage with other lenders and sponsors specifically to implement sustainability-linked margin ratchets. Although sustainability-linked margin ratchets have become common practice in the Private Debt market, market participants have adopted different approaches and have different focus areas. Therefore, we have to collaborate to agree on an approach.

In all circumstances we endeavour to ensure that any sustainability-linked margin ratchet proposed to us or by us is designed in line with the Loan Market Association's Sustainability Linked Loan Principles ("SLLPs"), the same framework used to evaluate our own ratchets as described in ***Section 9: Engagement***. We have in more than one instance refused to implement a sustainability-linked margin ratchet because of a lack of alignment with the SLLPs, specifically where the key performance indicators were not material or targets proposed to us were not ambitious enough. We believe that providing this feedback to market participants will preserve the integrity of the sustainability-linked loans and assist with creating guidance for sustainability matters for the Private Debt industry.

Collaborating with other lenders

In some instances, we may invest in a company alongside other lenders. Here, we work with them to not only agree on an optimal debt solution but also to agree on an engagement plan to improve a portfolio company's sustainability profile.

CASE STUDY

Collaborating with other lenders to agree a sustainability-linked margin ratchet

We collaborated with a co-lender to agree a sustainability-linked margin ratchet for a managed services provider. The ratchet focuses on three material areas: **(i)** cybersecurity, **(ii)** the Power Usage Effectiveness of its two data centres and **(iii)** the proportion of its fleet that are electric vehicles. In this case, the company proposed key performance indicators and sustainability performance targets for us to consider. In order to agree to the proposal, together with our external ESG consultant, we assessed it against the SLLPs. Following our review, we subsequently requested that two of the PUE targets were revised to ensure they were ambitious and represented a material improvement in performance. Although the co-lender had adopted a different approach for their own sustainability-linked margin ratchet programme, the firm was happy to agree to our proposal as the ratchet captured the core principles of the SLLPs. The co-lender was also supportive of our proposed revisions which made the targets more challenging.

Discussions began in July 2022 and the ratchet was signed and documented in December 2022. The first test date has passed (May 2023), and the company has provided us with evidence demonstrating that key performance indicators 1 & 2 have been met. However, this has yet to be verified. We await third-party verification before commenting on the outcome.

Collaborating with sponsors

As the owners of our portfolio companies, sponsors can exercise their influence and force companies to implement positive ESG changes to meet the sustainability performance targets set. Understanding where our ESG objectives align and focusing our engagement efforts in these areas improves sponsor buy-in and the success of engagement efforts.

CASE STUDY

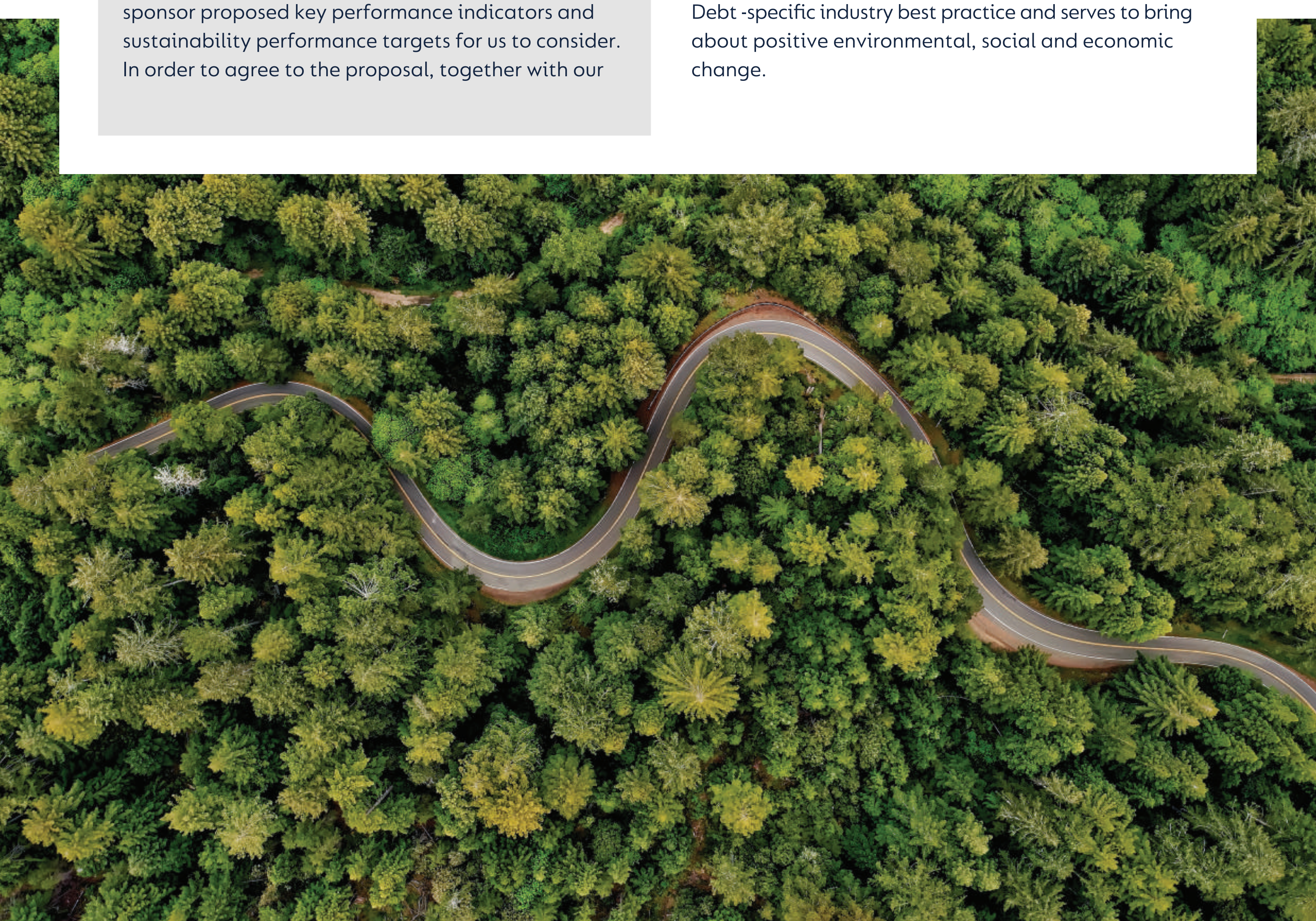
Agreeing to a sustainability-linked margin ratchet, designed by the Private Equity sponsor

We collaborated with a Private Equity sponsor to agree a sustainability-linked margin ratchet for a portfolio company that manufactures protective clothing for motorcyclists and dynamic sports. The ratchet focuses on two material areas: **(i)** supplier social assessments and **(ii)** GHG emissions reductions. In this case, the sponsor proposed key performance indicators and sustainability performance targets for us to consider. In order to agree to the proposal, together with our external ESG consultant, we assessed it against the SLLPs. Following our review, we subsequently requested revisions to better align the plan to the principles as well as to grant us additional rights in the legal documentation, including allowing us to review the GHG emissions reduction targets once the baseline assessment had been completed to ensure alignment with the Paris Agreement.

The ratchet was signed and documented in May 2022. The first test date has passed (May 2023), however, performance data has yet to be externally verified. We await third-party verification before commenting on the outcome.

Collaborating with wider stakeholders

Arcmont is involved in several industry memberships and initiatives, which serve a variety of purposes. Our participation in these helps to inform and develop our internal practices, contribute to the creation of Private Debt -specific industry best practice and serves to bring about positive environmental, social and economic change.



INITIATIVE	LEVEL OF INVOLVEMENT	STATUS	NATURE OF INVOLVEMENT	STARTING YEAR
UN Principles for Responsible Investment	Moderate	Signatory	Firm is a signatory and our Chief Operating Officer is a member of the Private Debt Advisory Committee.	2013
Alternative Investment Management Association (AIMA) Alternative Credit Council (ACC)	Moderate	Member	Firm is a member and our Chief Operating Officer is Vice Co-Chair of the AIMA ACC Manager's Committee.	2022
Task Force on Climate Related Financial Disclosures (TCFD)	Basic	Supporter	Adding our support to this initiative aimed at developing voluntary, consistent climate-related financial risk disclosures framework for issuers and others, ongoing promotion of use of the TFCD framework for reporting.	2022
2021 Global Investor Statement to Governments on the Climate Crisis	Basic	Supporter	Adding our support to this initiative aimed at calling on governments to accelerate action to tackle the climate crisis.	2021

Please refer to ***Principle 4: Well-Functioning Markets***, specifically the UN PRI PDAC a case study, for an example of the output of our collaboration efforts.

Principle 11: Escalation

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

The primary asset class in which the funds managed or advised by Arcmont Asset Management Limited invests is debt. All Arcmont funds are also European-focused. Therefore, our escalation approach does not differ across funds or geographies.

We will escalate any issue that is not in line with our responsible investment objectives. As a lender to our portfolio companies, as opposed to an owner, the methods of escalation available to us are limited. Nonetheless, we are committed to communicating our concerns to drive positive change. Our escalation process begins with us raising our concerns directly with management teams, other lenders and Private Equity owners, leveraging our relationships to enact change. We are committed to exhausting all available avenues in an attempt to remedy any situation rather than divest immediately.

ESG escalation methods

As a UN PRI signatory, we leverage the guidance provided by the initiative on how to act if a stewardship approach is deemed unsuccessful i.e. an escalation event occurs. The UN PRI offers a number of escalation measures; however, as mentioned above, as a lender we are restricted on the escalation measures available to us as outlined below.

ESCALATION MEASURE[28]	AVAILABLE TO ARCMONT AS A LENDER?
Collaboratively engaging the entity with other investors	✓
Divesting or implementing an exit strategy	✓
Filing/co-filing/submitting a shareholder resolution or proposal	✗
Publicly engaging the entity (e.g. open letter)	✗
Voting against the re-election of one or more board directors	✗
Voting against the chair of the board of directors	✗
Voting against the annual financial report	✗

[28]Source: 2021 UN PRI Reporting Question. Escalation Strategies - ISP 19.

ESG escalation events

Below we list examples of instances that may result in us engaging in escalation activities and the corresponding objectives of the escalation.

EVENT	NECESSARY ACTIONS	OBJECTIVES FOR ESCALATION
Material ESG controversy	Although we have a strong focus on pre-investment due diligence to mitigate the risks of ESG controversies arising during our holding period, they may occur. Should such an event occur, we will first engage with the issuer to understand why the event occurred, assess the impact and ensure proper remedial measures are implemented.	To encourage management to take action to mitigate the negative impacts of the controversy and implement actions to mitigate such a controversy arising again.
Post-investment ESG Exclusion Policy breach	Throughout our holding period, we continually reassess our portfolio companies against our ESG Exclusions Policy. In the event we find a violation, we will first engage with the portfolio company to understand why the breach occurred and ensure proper correction measures are implemented. If our engagement efforts do not result in satisfactory outcomes, we will not provide follow on support if requested and, as a last resort we may consider divestment.	To bring the investment back into compliance with our ESG Exclusions Policy.
Unsuccessful engagement	We deem an unsuccessful engagement to be one where a company has agreed to participate in our sustainability-linked margin ratchet programme but consistently fails to meet a sustainability performance target ("SPT") or has not taken proactive sets to meet a SPT. In such events, we will escalate our concerns to the company and Private Equity sponsor and advocate for changes. Should the SPT be deemed to be too ambitious, we will revisit the plan, pinpoint the causes of the inadequate outcomes, and implement improved engagement efforts.	To ultimately encourage our portfolio companies to improve their sustainability performance.

Collaboratively engaging the entity with other investors

As described in ***Principle 10: Collaboration***, we work with other lenders and Private Equity sponsors across our investments. Should an escalation event occur, we will collaborate with these parties to ensure appropriate action is taken. As owners of our portfolio companies, sponsors can exercise their influence to force the companies to implement the appropriate remedial action.

Divesting or implementing an exit strategy

Should a portfolio company not take appropriate action to remedy an ESG escalation event, we may mitigate our risk exposure by considering selling our position to a third party if the value is compelling, however, this situation has not yet arisen for Arcmont.

Voting

As further explained in ***Principle 12: Exercising Rights and Responsibilities*** and as detailed in our internal Voting Policy, Arcmont may be able to vote in limited instances where investments take on an equity element and we are granted shareholder voting rights.

However, for the overwhelming majority of Arcmont's current equity positions, we only hold a minority stake in voting shares and, given our votes are not required to pass shareholders' resolutions and the majority of our portfolio companies are private companies, we are not typically consulted prior to a vote on matters being put to a shareholder vote, including ESG matters. However, in the event that we do have shareholder voting rights, we will pursue the voting measure prescribed by the UN PRI, where possible, to escalate our concerns and advocate for positive change. To date, this opportunity has not yet arisen for Arcmont.

Outcome

During the 12-month period ending 31 October 2023, none of the aforementioned escalation events occurred. We, therefore, are unable to comment on the outcomes of escalations.

Progress Review

OBJECTIVES IN 2022 REPORT	STATUS	DETAILS
Exploring implementing an Escalation Policy	Achieved	Rather than implement a standalone Escalation Policy, we revised our ***Responsible Investment Policy*** to specifically detail our escalation approach which serves as a formal guide to users.

Exercising Rights and Responsibilities

Principle 12: Exercising Rights and Responsibilities

Signatories actively exercise their rights and responsibilities.

Arcmont is a Private Debt asset manager and is therefore a lender rather than an owner for the vast majority of investments and is not typically granted voting rights. Further, Arcmont does not invest in listed equities and therefore the UK Stewardship Code 2020 reporting requirements for this asset class have not been addressed in this section.

Resources

Senior members of the Investment team receive regular specific negotiation and other related training. For example, during the 12-month period ending 31 October 2023, senior Investment team members attended a multi-day course focused on delivering the best outcomes in deal-related negotiations. We also have an experienced internal Legal team who support the Investment team's efforts. The team is responsible for providing input on and reviewing all investment documentation, whilst working alongside our external legal advisors to support the Investment team in negotiations.

Rights and responsibilities

In making any given investment, we actively negotiate terms, conditions, rights and responsibilities to not only ensure the investments are attractive for our clients, but also to ensure that Arcmont is able to exercise appropriate levels of rights and responsibilities, if necessary.

While each agreement is bespoke, in all cases we aim to ensure downside protection. Accordingly, the vast majority of our agreements include incurrence covenants and/or maintenance covenants together with non-financial covenants. These covenants allow us to take enforcement action should a covenant breach not be remedied during the relevant grace period granted. Currently, we do not have sustainability-linked covenants in our legal documentation. We do, however, have sustainability-related rights and responsibilities for those investments where we have implemented a sustainability-linked margin ratchet.

We would like to highlight that where we have become an owner of a business following a restructuring relating to financial performance deterioration, we will exercise our rights as an owner to encourage better ESG performance.

Sustainability-linked margin ratchets

As previously mentioned, we offer certain primary borrowers sustainability-linked margin ratchets[29] i.e. provisions that tie the rate of interest a borrower pays to pre-agreed key performance indicators ("KPIs") and sustainability performance targets ("SPTs"). Although we endeavour to agree ratchets prior to closing to include in the original loan agreements, KPIs and SPTs take time to agree, especially to ensure they capture

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

the fundamental characteristics of sustainability-linked loan products as prescribed by the Loan Market Association's Sustainability-Linked Loan Principles. Therefore, in the vast majority of cases, an "agree-to-agree" condition is included in loan agreements to ensure the ratchet does not delay closing. Here, the mechanisms of the ratchet are embedded into the agreements, but the KPIs and SPT are agreed at a later date. Once invested, we engage with the transaction parties to set the KPIs and SPTs and, once agreed, they are documented in a legally binding agreement.

Although margin rachet discounts are currently the most common type of sustainability-linked margin ratchets (i.e. if a portfolio company meets a sustainability performance target, they are rewarded with an interest rate decrease), margin rachet increases are slowly becoming more common (i.e. portfolio companies are penalised if they fail to meet a sustainability performance target). Margin rachet increases ultimately drive better engagement outcomes as portfolio companies are better incentivised to meet the sustainability performance targets set. In these cases, although we cannot take enforcement action as we can where there is a covenant breach, the company is penalised should it not improve its performance as planned. As at the end of the reporting period, we have four sustainability-linked margin ratchets that include margin rachet increases in addition to decreases.

Voting

The Arcmont funds hold varying levels of rights and responsibilities across their portfolio of investments depending on the investment strategy in question. The primary asset class in which the Arcmont funds invest is debt. However, the Arcmont funds do sometimes take equity positions alongside the debt investments they make. These will typically be minority investments (generally representing between 5% and 10% of the aggregate equity interests in the asset) and structured as either a shareholding or as a Limited Partner (LP) investments in a co-invest fund.

It is generally fair to say that the Arcmont funds are typically passive equity investors. In equity investments structured as co-invest, the Arcmont funds will be LPs and so the asset will be managed on their behalf, with no voting or consent rights as regards the asset. For equity investments structured as shareholdings, the Arcmont funds' holding is typically so small that their consent is not required for any decision, and they will typically not be consulted, subject to certain market- standard protections for minority investors. Note that this scenario excludes cases where the Arcmont funds hold all, or substantially all, equity interests in an asset due to having enforced over their debt or where the Arcmont funds hold a more meaningful minority stake in a given asset.

For debt investments, in restructuring scenarios and the few equity investments where the Arcmont funds will typically hold substantial, or even decisive, voting positions, Arcmont has a fiduciary duty to act in its clients' best interest. In order to meet this duty, we have adopted policies and procedures designed to ensure that we vote in the best interests of our clients. These are detailed in our newly established internal Voting Policy.

As outlined in the Policy, our general principle is to exercise voting rights wherever possible. We may apply additional criteria when deciding whether to participate in shareholders' meetings of companies in which Arcmont managed vehicles hold voting positions. We may exercise the right to attend and vote at shareholders' meetings if the matters that are to be dealt with may have consequences that, depending on the result of the vote, could add or subtract economic value to the investment vehicle and consequently to the benefit of our clients, or could have a significant impact on ESG matters.

In conjunction with the Legal team, the Investment Committee members are, in general, in the best position to exercise voting authority attached to relevant securities held by Arcmont vehicles and have access to appropriate information to do so.

In exercising any voting rights, we take into account all relevant factors. We value engagement with companies in order to receive information on the issues to be voted on and/or to convey their voting expectations. The results of this dialogue can influence the direction of the vote. We tend to support proposals that increase the value of the Arcmont vehicles' investments. We may abstain from voting or vote against cases where we have reservations about the governance of the company, the resolution discussed contravenes the interests of the Arcmont vehicles and underlying investors, the resolution is unclear, there is insufficient information available, or it contravenes our responsible investment objectives, or those of our clients.

In limited circumstances, we may refrain from voting proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting and the anticipated benefit to our clients.

Contact Us

To ensure we continue to meet our key stakeholder needs and interests, we welcome feedback on the contents of this report.

Please contact **ESG@Arcmont.com**

Appendix 1:

2023 Objectives set out in our 2022 Sustainability Report

PILLAR	PRIORITY AREA	2023 OBJECTIVES
Responsible Operations	Human Capital	• Strengthen and upskill the growing management layer through an extensive and dedicated external management training programme which will be run over the course of the year. • Promote further cross-team integration with dedicated initiatives to discourage a 'silo mentality'. • Establish a dedicated Social Committee to drive forward employee engagement as the firm continues to grow as well as to broaden our employee event offering to make them more inclusive. • Complement our existing learning and development platform offering with targeted upskilling initiatives in identified areas of need at the individual level. • Further structure our recruitment processes and start tracking broader attraction and retention metrics. • Continue to review our employee wellbeing offering to ensure we are supporting the unique circumstances of all employees. • Continue to roll out and improve successful initiatives such as the Arcmont Lunch and Learn series and the Arcmont Mentorship Programme.
	Diversity, Equity and Inclusion	• Strengthen our DEI policies and procedures, with a particular focus on recruitment, to reflect the DEI Committee's objectives and planned initiatives. • Start tracking employee churn, pay and satisfaction across gender and ethnicity categories to allow us to identify areas of improvement and track progress. • Establish a Social Committee to organise inclusive events. • Increase the frequency and type of DEI-related training to ensure our people continue to feel safe, included and respected. • Publish a DEI statement on our website to communicate our commitment to creating a more diverse, inclusive and equitable workplace. • Start tracking and publicly disclosing employee DEI metrics across broader categories as the firm grows e.g. senior leadership teams. • Offer employees the opportunity to join Nuveen's DEI business resource groups, providing them with a space to connect with others with similar backgrounds or experiences. • Investigate joining external collaborations focused on promoting DEI. • Continue to participate in the Private Credit Investing Potential Programme to support social mobility.
	Climate Change	• Expand disclosures of the processes already in place to better communicate how climate considerations are already integrated. • Once climate metrics and targets have been agreed, implement a formal monitoring process.

PILLAR	PRIORITY AREA	2023 OBJECTIVES
Responsible Operations	Climate Change	• Produce a full TCFD report for FY2023. • Update the operational risk register to identify where existing processes directly address climate risks. • Undertake climate scenario analysis in 2023 with support from an external consultant to develop time horizons and their associated climate issues as well as identify the risks and opportunities relevant to us over those time frames. We intend to use this exercise to analyse the resilience of our business strategies against various climate scenarios. • Once we have addressed the inclusion of climate risks within the current risk management processes, ensure, assess and manage them as part of our overall risk management. • Expand our disclosures on the existing investment risk management process to include details on how the investment-related climate risks are prioritised based on their materiality. • Disclose historic emissions, including Scope 3 Category 15 (financed emissions), leveraging the Insight ESG Outreach Solutions to fill any data gaps. • Explore producing fund-level climate disclosures for clients. • Develop net-zero targets leveraging the Net Zero Investments Framework. • Endeavour to set a Near-Term Science-Based Target to align with a 1.5°C pathway and develop a comprehensive GHG emissions reduction plan. • Improve the data quality of our Scope 3 emissions. • Educate our employees on climate change, its impact on the business and the steps necessary to ensure these impacts are mitigated as well as the actions they can take to reduce their own emissions. • Implement a Corporate Environmental Policy that outlines our aims and principles in relation to managing the environmental effects and aspects of our operations. • Establish an employee ‘Green Team’ comprised of passionate employees who are focused on driving forward our sustainable workplace practices. • Investigate joining additional external collaborations focused on tackling climate change.
	Data Safeguarding and Systems	• Further improve automation and systems capabilities to generate further value for our stakeholders. • Explore automatically generating data reports relating to the Task Force on Climate-Related Financial Disclosures (TCFD) and Sustainable Finance Disclosure Regulation (SFDR) Principal Adverse Impact Indicators.
	Investors	• Explore seeking regular direct investor feedback via an investor-wide survey. • Continue to keep our investors well-informed via our extensive reporting and regular updates. • Continue to enhance and develop our ESG reporting to better reflect our investors’ requirements. We are specifically focused on providing more quantitative ESG data.

PILLAR	PRIORITY AREA	2023 OBJECTIVES
Responsible Operations	Investors	• Explore providing investors with the European ESG Template (EET) in response to increasing demand. We recognise that this will support a standardised and harmonised exchange of ESG-related information and support compliance with regulatory requirements. • Publish annual product-level GHG emissions reports to allow investors to account for their total GHG emissions, generate insight into their exposure to key climate-related risks and opportunities and comply with the increasing disclosure requirements.
	Communities	• Select one charity annually to focus our efforts on. Our intention is to create a shortlist of charities and then ask employees to vote on their preferred charity. Once selected, Arcmont will not only financially support the charity, but will also offer employees a dedicated volunteer day to support the charity. • Continue to participate in the Private Credit Investing Potential Programme. • Continue to offer the Charitable Matching Scheme to our employees and encourage them to utilise it. • Join forces with Nuveen to expand our charitable reach.
Responsible Governance	Ownership, Control and Governance	• Ensure a smooth transition into the Nuveen Group
	Business Ethics and Integrity	• Continue to ensure that our employees are aware of their professional responsibilities through regular comprehensive training. • Submit a Stewardship Report to the FRC.
	Management of the Legal and Regulatory Environment	• Continue to review our existing policies and procedures to incorporate changes to regulations. • Continue to review our Compliance Programme Framework on an ongoing basis, updating it where appropriate to reflect regulatory developments, market practices and our business activities. • Execute the action plan to enhance our supplier due diligence to better mitigate Modern Slavery risks in our supply chain.
Responsible Investment	Strategy	• Continue to offer sustainability-linked margin ratchets to new primary borrowers. • Continue to enhance and develop our responsible investing approach, incorporating market best practices within.
	Governance	• Review the feedback from the FRC on our inaugural Stewardship Report submission and make upgrades to our ***Responsible Investment Policy.*** • Hire a Responsible Investing Analyst to support our growing operations. • Continue to roll out ESG-related training to ensure the relevant employees have the required knowledge and skills to perform their duties. • Continue to review our responsible investing governance structure to ensure it remains appropriate as our business grows.

PILLAR	PRIORITY AREA	2023 OBJECTIVES
Responsible Investment	Governance	• Explore linking employee remuneration and responsible investment objectives. • Continue to review our responsible investment policies to ensure they remain appropriate as we enhance and develop our approach.
	Process	• Assess our existing tools and processes and evaluate the need to incorporate enhanced assessments of emerging ESG themes e.g. nature and biodiversity risks. • Review and update Arcmont's Universe of ESG Issues tool to ensure the issues categories remain relevant. • Roll out an annual ESG questionnaire to all portfolio companies leveraging the Insight ESG Outreach Solution to collect reported ESG data. • Continue to train the Investment and Responsible Investing team as well as the ESG Committee on responsible investing best practices.
	Advocacy	• Continue to inform stakeholders about our progress on creating a Private Debt net-zero strategy. • Explore joining responsible investing working groups to enable Arcmont to contribute to developing best market practices.

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