HAYFIN

UK STEWARDSHIP CODE 2020

HAYFIN CAPITAL MANAGEMENT LLP

OCTOBER 2022

Preface

The UK Stewardship Code 2020 sets high stewardship standards for asset managers. The Code comprises a set of “apply and explain” principles but does not prescribe a single approach to effective stewardship. Instead, it allows asset managers to meet the stated expectations in a manner that is aligned with their own business model and strategy.

Hayfin recognises that responsible stewardship is fundamental to fulfilling our fiduciary duty for our investors. Accordingly, we fully support the Code, applying its 12 principles across our strategies. We henceforth set our commitment and the manner in which we are fulfilling the principles of the Code and our stewardship responsibilities for the 12-month period ended 30th April 2022.

Yours sincerely,

Tim Flynn, CEO

Principles for asset owners and asset managers

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.

Hayfin was launched in 2009 with a mandate to search across the European private credit markets to identify the best risk adjusted returns on behalf of its original institutional shareholders. While we have since segmented investments into distinct strategies, broadened our investor base and grown our team, we have not changed our investment philosophy. Hayfin's investments are rooted in fundamental credit analysis, requiring careful, thorough research of each investment opportunity. We conduct extensive market due diligence, analysing the competitive environment and industry outlook across a potential borrower's core markets. We also undertake an extensive due diligence review of each potential borrower to identify financial trends and sensitivities in the historic financial performance of the potential borrower. Across our strategies, we manage broad but well-defined mandates, enabling us to respond to changing market conditions and to invest in areas where capital and competition are relatively scarce. We diversify across geography, industry and number of investments. We generate differentiated return through hard work and insightful analysis.

Discipline is the cornerstone of Hayfin's approach to implementing its strategies. This includes discipline in sourcing, where Hayfin has developed an approach that minimises competition with other providers of capital, and discipline in investment selection, where Hayfin has emphasised preservation of capital rather than taking excessive risk to achieve target returns. We rigorously review documentation prior to investment, maintaining structural protections and covenant packages, in order to protect our clients' capital.

We recognise that we would not achieve our objectives without our people. We seek to recruit and retain exceptionally talented professionals. We believe in being local in each of our markets, and that our diverse mix of nationalities, cultures and languages makes us more connected to these markets. While most of our team are industry generalists, we employ dedicated specialist teams where we believe focused expertise provides an advantage.

Our investment professionals are rewarded to collaborate, rather than outperform peers, to achieve the best outcomes for our investors. They are recognised for sharing their experiences and learning from past mistakes. Furthermore, we provide a strong and stable platform, including an experienced middle- and back-office team who are committed to ensuring a smooth process for our investors. Our business development team is focused on building long-term, trusted partnerships with our investors while offering strong transparency and exceptional client service. Our management team is committed to continual improvement and long-term success.

In late 2019, we launched a Culture Committee to articulate the principles to which we adhere when we work at our best on behalf of our clients. In 2020, the Committee, with the help of a broader internal working group, developed a mission statement supported by a set of values and behaviours. The outcome is shown below. During the last year, the Culture Committee launched an internal wellbeing initiative across the firm, focused on supporting employees maintain a better work-life balance. We also set plans to develop the way we internally communicate by building and designing an intranet. We have delivered a leadership programme to support the continued development of our staff with culture being a focus of training sessions.

Hayfin's Mission Statement and Values

Our mission is to deliver consistent, superior, risk-adjusted returns to our investors. We aim to achieve this through a collaborative approach with unwavering focus on integrity, discipline, and creativity in everything we do. Our people, and the trust instilled in us by our stakeholders, are our core assets.

Responsibility

We are dedicated to our partners and constantly work to stay aligned to their long-term objectives. As custodians of our investors' capital, we are prudent with our decisions and will not lose sight of risk or our mandate in pursuit of return. We understand that if we do the right thing by our clients, our own success will follow.

Collaboration & Transparency

We are open-minded and team focused, sharing our knowledge and experience and working together towards a collective goal. We stress collaboration in everything we do because we believe teamwork, healthy debate and humbleness create better decision making. We keep communication simple, kind, accessible and proactive while recognising the need for transparency to collaborate in a committed and non-political way.

Excellence

We are hard-working and dynamic, always searching for new and better ways to work, seeking feedback and challenging conventional thinking. We foster an ambitious and high performing culture where people understand improvement is a constant exercise. We do not hide our mistakes and recognise them as a natural part of our personal and collective growth. We make an outsized effort to attract, retain and promote people who will challenge us and contribute to our success.

Entrepreneurial

We are energetic, flexible and creative. We incubate and innovate new ideas to support progress while keeping in mind the risks involved. This freedom to explore inspires us and makes our work exciting and fun. We remain rigorous and diligent about what we do while staying flexible and adaptable, to look beyond conventional answers and pursue the most compelling opportunities for our investors.

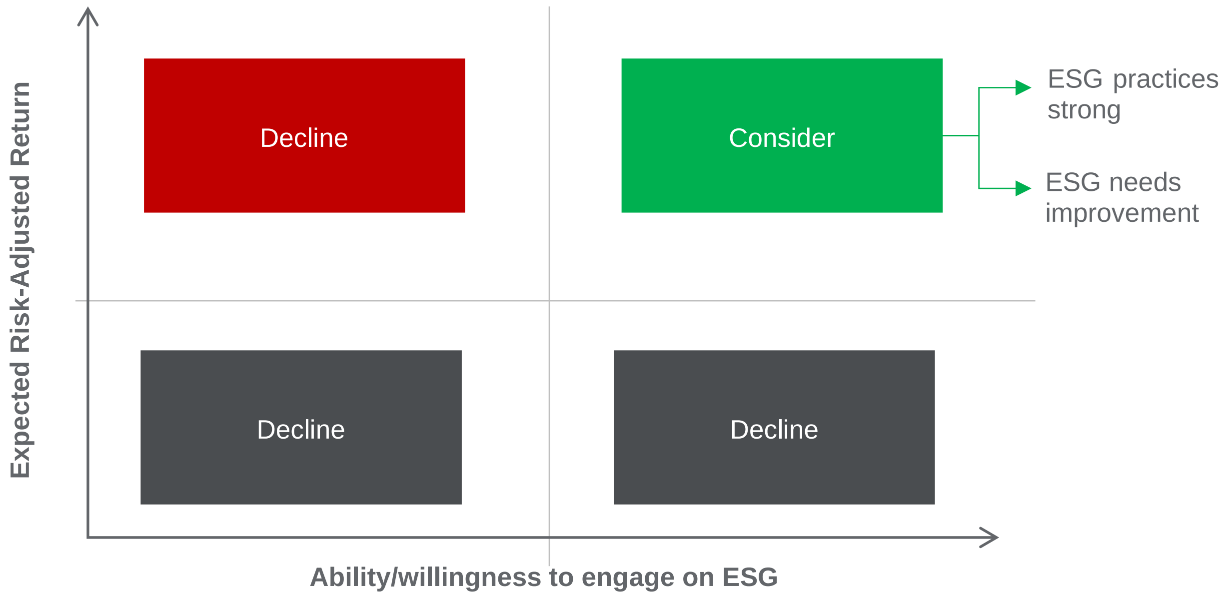
Diversity

We are committed to cognitive diversity at our firm. We accept and appreciate that different ways of seeing and thinking can make us stronger as a team. We seek to bring people together from diverse backgrounds and aim to strike a balance in skill set, character, experience and point of view. We ensure everyone feels valued and comfortable expressing themselves and use these different perspectives to solve problems and make better decisions.

The above mission statement highlights the importance of responsibility as part of our culture. We have always analysed material ESG issues as part of our overall risk assessment of an investment. In doing so, we are making more informed investment decisions, better protecting the downside, potentially enhancing returns, fulfilling our fiduciary duty and protecting the firm's reputation. We embed ESG not only within our investment process, but also within our corporate strategy. By considering ESG at a corporate level, we are contributing to a more sustainable world for our stakeholders, including our clients and their beneficiaries, our shareholders, our borrowers and our employees.

Our responsible investing approach is inclusive and active. We believe that directing capital towards borrowers willing to improve the sustainability of their practices may generate better outcomes than simply excluding investments on poor ESG grounds. As such, we support companies across industries at different stages of the ESG journey. Our key considerations are around engagement. Specifically, are we able to engage with our sponsors and/or borrowers on ESG matters and are they willing to engage with us?

An ESG framework on investment opportunities



Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over the companies. However, Hayfin seeks to engage on ESG matters in all circumstances. Through engagement, we strive to increase transparency of information, raise awareness of ESG issues and encourage better ESG practices. The level of engagement depends on the type of investment.

As a signatory of the UN-supported Principles for Responsible Investing (PRI), Hayfin has embedded the following principles in its approach to stewardship and in its Responsible Investing Policy:

- Principle 1: Incorporate ESG issues into our investment analysis and decision-making processes
- Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices
- Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest
- Principle 4: Promote acceptance and implementation of the Principles within the investment industry
- Principle 5: Work together to enhance our effectiveness in implementing the Principles
- Principle 6: Report on our activities and progress towards implementing the Principles.

Our ESG goals for 2022 (set out below) are guided by the PRI, our investors' voice, our internal views and trends across the industry.

Goal	Current progress
Increasing quantitative ESG data capture across the latest vintage of our Direct Lending Fund and our High-Yield and Syndicated Loans (HYSL) Fund.	For direct lending, we plan to issue an annual ESG questionnaire to our borrowers to improve ESG data coverage. For HYSL, we plan to begin gathering emissions data and assessing net zero alignment of issuers.

Enhancing our approach to, and analysis of, climate change.	We have defined an internal net zero alignment framework and begun using this as a monitoring tool at portfolio company level for private and liquid credit.
Developing proprietary ESG risk analysis tools.	We have developed an internal ESG deal scoring tool to assess ESG risk across the latest vintage of our Direct Lending Fund and also liquid credit.
Deepening ESG integration and accountability within our strategies.	We have reclassified three of our funds as Article 8 under the EU's Sustainable Finance Disclosure Regulation (SFDR).
Improving disclosure on ESG and engagement.	We have added ESG sections to our investment case studies in regular client reporting for our Direct Lending Fund and plan to expand reporting once our first goal of quantitative data capture is achieved.

Our track record and our loss rate are used by our investors to assess our success. However, we don't feel that these statistics are adequate. Our decision to sign the PRI was driven by our recognition of the PRI's leadership in ESG and our desire to use their frameworks to assess ourselves on responsibility. 2020 was our first formal year of reporting, and we received an "A" grade for the two components on which we were assessed. The PRI will continue to help us shape and prioritise our goals for the future.

While we look to the PRI for guidance, we also look to our clients and their consultants for feedback on our ESG and stewardship processes. As such, we have received positive feedback on our governance and oversight of ESG, the effectiveness of systems and controls for ESG analysis and the investment application and recording of ESG factors. While we take pride in hearing our strengths, we continually make an effort to address areas for improvement by engaging with clients on ESG. We have enhanced our ESG integration process and reporting in light of client conversations. We welcome client feedback and partnership regarding our approach to responsible investing. Our ESG Committee is responsible for understanding the continually evolving ESG standards defined by the industry, regulators and our clients, and for defining new goals and determining how we can implement them. Our philosophy is that ESG is a journey and that we will continue to strive for best practice as an alternative investor.

During the reporting period, in conjunction with Hayfin hiring its first dedicated ESG resource (Caoimhe Bain as Head of ESG), Hayfin undertook a review of all ESG integration and stewardship processes. This included a review of the way in which we engage with private equity sponsors. We enhanced our engagement process to be more granular and also listened internally to the views of private equity and operational due diligence teams who had observed cybersecurity as a risk not being optimally managed by sponsors across portfolio companies. Considering this we included an explicit section on cybersecurity in the questionnaires we use to engage with sponsors on. We have had a number of phone calls directly with sponsors to understand their approach, and how they plan to approach this risk in the future. The outcome has been a greater understanding of approaches taken across the market. Through these conversations, we have been better able to highlight this as a key risk in the market.

Principle 2: Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

Hayfin Ownership

Hayfin benefits from a stable and long-term ownership model with strong team alignment. In January 2017, British Columbia Investment Management Corp ("**BCI**"), became an institutional shareholder of Hayfin to support the long-term growth plan of the company. BCI is a leading provider of investment management services for British Columbia's public sector with approximately 211 CAD billion of managed assets. In the current ownership structure, Hayfin management and employees remain substantial shareholders alongside BCI. As a founding PRI signatory in 2006, BCI and Hayfin are in constant collaboration to adopt and apply best practice in ESG and other matters.

ESG Committee

Hayfin's ESG efforts are led by the ESG Committee which is comprised of members from the senior management, investment, legal and client service teams. The ESG Committee meets monthly to oversee Hayfin's ESG efforts. The ESG Committee conducts ESG training for employees and oversees the completion of Hayfin's PRI reporting and SFDR Article 8 reporting for three of our funds. The ESG Committee also discusses how the firm can improve to become best-in-class in ESG across its business lines, identifies new initiatives and determines implementation for new processes. Some of the activities undertaken by the ESG Committee over the last 12 months include:

- reviewing and updating our Responsible Investment Policy and our Exclusions Policy,
- discussing measuring greenhouse gas emissions at a corporate level and setting an emissions reduction strategy (with the aim of undertaking this by the end of 2022),
- reclassifying three of our funds as SFDR Article 8 and overseeing the related disclosure,
- discussing collaborative engagements including joining the PRI's Private Debt Advisory Committee and joining the ESG Credit Consortium Working Group set up jointly by the PRI, the Alternative Credit Council ('ACC') and the Loan Syndications and Trading Association ('LSTA').

Seniority, Experience and Qualifications

Members of the ESG Committee come from diverse backgrounds, both academic and professional, and they bring to the committee a diversity of perspectives and opinions. The ESG Committee is supported by a newly appointed Head of ESG who joined Hayfin in Q4 2021.

ESG Committee Members		
Head of ESG: Caoimhe Bain (11 years experience)		
Legal	Partner Solutions	Investment
▪ David Rushford, General Counsel (22 years experience) ▪ Béatrice Méthé, Legal Counsel (10 years experience) ▪ Alex Pickett, Legal Counsel (8 years of experience)	▪ Sheila Pejavar Brown, Managing Director (20 years experience) ▪ Lauren Laws, Analyst (4 years experience)	▪ Mirja Lehmler-Brown, Managing Director (24 years experience) ▪ Andrew McCullagh, Managing Director (32 years experience) ▪ Mark Bickerstaffe, Managing Director (22 years experience) ▪ Matthew Supranowicz, Principal (16 years experience)

ESG Deal Committee

The ESG Deal Committee's role is to facilitate discussion and analysis of material ESG risks arising in deals considered across the private credit funds before deals are presented to Hayfin's Investment Committee (IC). The ESG Deal Committee's main responsibilities are to:

- Establish and maintain ESG tools to assist the deal teams with ESG risk identification and analysis. These tools help set out risk information within the ESG memo discussed at the ESG Deal Committee.
- Establish processes for tracking ESG risks on an ongoing basis.
- Review, discuss and validate ESG KPIs e.g., set as part of ESG margin ratchets.
- Oversee the implementation of ESG deal scoring by the investment team. Review the final score assigned to a particular deal, providing any challenge as appropriate and signing off on the score. Maintaining ESG scoring methodologies, including testing and refining.
- Promote ESG related disclosure through identifying where readily available ESG data can be easily requested by the deal team.
- Establish processes ensuring all deals have gone through the ESG Deal Committee.
- Provide the deal team with guidance on the application of ESG tools.
- Provide ESG training session for the Private Credit Investment team.
- Escalate all ESG issues of concern to the IC through a formal conclusion. The IC remain responsible for the ultimate decision of whether to proceed with an investment on an ESG basis.

The ESG Deal Committee includes members of our investment, ESG, partner solutions and legal teams.

Reporting Lines to the Audit & Risk Committee, Executive Committee and the Board

In 2019, Hayfin established an Audit & Risk Committee, responsible for implementing Hayfin's risk management framework covering non-investment risk. Members include the COO Private Debt, COO Liquid Debt, General Counsel, CFO, CTO, two Non-Executive Directors, a shareholder representative and a member of the risk function who acts as secretary. The Audit & Risk Committee reports quarterly to Hayfin's Board of Directors. In 2020, our ESG governance was enhanced further with the ESG Committee reporting directly to Hayfin's Audit & Risk Committee twice a year. The new reporting line strengthens ESG oversight and offers more breadth of escalation.

ESG Deal Committee to Focus on Investment Level Considerations

Hayfin has an ESG Deal Committee that meets with private credit analysts to discuss investments before they go to Hayfin's Investment Committee for approval. The ESG Deal Committee is a subset of the ESG Committee and is composed of members of our investment , legal and ESG teams. The ESG Deal Committee reviews ESG analysis of the prospective investments undertaken by the investment team, requests further research if required, encourages deeper engagement with sponsors and borrowers and maintains a database of ESG issues to monitor over time.

Record Keeping

Summaries of the investment reviews by the ESG Deal Committee have been recorded in an internal database since 2019. The information gathered serves as the basis for engagement with portfolio companies and sponsors. It allows us to monitor key metrics and related action items. The database is also used by the Investor Relations team in its reporting to investors and contributes to maintaining transparency towards them.

ESG Governance at Hayfin

In addition to the above, the ESG Committee reports quarterly to the Hayfin Executive Committee on progression made against pre-set annual ESG objectives.

Resources

Effective stewardship is at the heart of our investment process and our investment team is integral to Hayfin improving its long-term returns and fulfilling its duty towards its clients. Hayfin can count on a strong investment team composed of:

Private Credit: 51 professionals

Private Equity: 8 professionals

Liquid Credit: 20 professionals

(Figures as of March 31, 2022)

Training

Every year, we conduct ESG training for investment teams and employees in order to ensure that they have the required ESG knowledge and skills to incorporate best responsible investment practices in their day-to-day activities. These have become mandatory for all Hayfin employees, including the investment and client-facing teams. We hold the sessions on an annual basis in the autumn, with dedicated ESG sessions scheduled exclusively for new joiners. The sessions summarise the process, share best practice and update on new initiatives. They specifically address the following questions:

- What is ESG and why do we care?
- How do our investors think about ESG and what are their needs?
- The required steps for thorough ESG diligence
- ESG resources and checklist
- Case studies that reflect best practice
- Hayfin's PRI grades and feedback
- Hayfin's ESG goals

Training is ongoing at Hayfin, as the investment team refers to the Sustainability Accounting Standards Board (SASB) materiality mapping when conducting analysis on new investments. The ESG Deal Committee may also encourage the investment team to conduct more analysis and engagement regarding specific issues based on lessons learned from prior investments, or constraints around the availability of information in the pre-investment stage.

Incentives

Hayfin's approach to compensation seeks to align individual performance and incentives with the success of our clients and our shareholders while complying with the FCA remuneration rules for investment firms. Our Remuneration Committee reviews and implements Hayfin's remuneration policy. Remuneration is comprised of salary, annual cash bonus and long-term incentives in the form of equity and carried interest schemes. The make-up of remuneration for each role is set according to function and seniority within our incentive framework: Non-cash incentives including carry and equity participation encourage retention and alignment to investor interest.

The compensation of our dedicated ESG resource is directly linked to pre-determined ESG annual targets being met as well as progress made towards reaching the ESG Committee's annual goals, as set out within a scorecard at the beginning of each year.

Principle 3: Conflicts of interest

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

Hayfin recognises that the nature of asset managers' roles can create conflicts of interest. In the event that a conflict of interest arises where an active role in respect of such investments is taken, Hayfin will seek to resolve such conflict in a fair and equitable manner and in accordance with FCA and other applicable regulatory principles, the relevant provisions of the fund documents (or other investment agreements in case of other investment vehicles) and Hayfin's own internal policies and procedures. Hayfin also recognises that asset managers are placed in a unique position of trust by their clients. Therefore, the firm's approach to conflicts of interest is to comply not just with the letter of the requirements to which the firm is subject, but to comply with the spirit of those requirements and the principles underpinning them by, in particular, being aware of both actual and potential conflict of interest situations.

In accordance with Financial Conduct Authority requirements, Hayfin has established, implemented and maintains an effective conflicts of interest policy that is appropriate to Hayfin's size and organisation and the nature, scale and complexity of its business. Hayfin's conflicts of interest policy provides transparency to our clients, employees and other entities about the policies that Hayfin has in place with regard to the potential conflicts that may arise, including a Gifts and Entertainment Policy which applies to all employees, Personal Account Dealing procedures to ensure no conflicts can arise between employees and clients, and an Allocation Policy to ensure fair and balanced allocations are made to clients. Hayfin reviews this policy on an annual basis to ensure the firm is satisfied that it is up-to-date and meets best practice standards. Our conflicts of interest policy is available upon request.

Potential Conflicts of Interest

When considering a conflict of interest, the firm considers whether Hayfin may:

- stand to make a financial gain, or avoid a loss, at the expense of a client;
- have an interest in the outcome of a service provided to the client, or transaction carried out on their behalf, which is distinct from the client's interest in that outcome;
- have a financial or other incentive to favour the interests of one client or group of clients over another client;
- carry on the same business as the client; or
- receive from a person other than the client an inducement relating to the service provided to the client, in the form of monetary or non-monetary benefits or services.

Conflicts of interest may arise in connection with investments considered or made by Hayfin across its strategies and involving different parts of the capital structure. Below is an overview of potential investment conflicts and how Hayfin addresses them:

- cross trades: those are governed by our Cross Trade Policy which dictates when a cross trade may be instructed between two or more Hayfin funds/SMAs. All cross trades require approval by the Group General Counsel. When seeking approval, the requestor needs to set out in an email why each fund as a natural buyer or seller of the financial instrument/credit and the proposed price and terms:
- refinancing: Where a potential conflict arises because a fund or SMA is looking to refinance another fund or SMA), Hayfin considers the risk of loss for the contemplated strategy, the risk of default for the contemplated strategy, the appropriate return/pricing (in line with other loans/investments in the contemplated strategy), and the potential outsized gain or loss for the strategy being refinanced in order to assess if there is an apparent conflict of interest. If so, Hayfin then calls upon a third party to validate the pricing and terms. Third party validation could come from consultation with Advisory

Boards of impacted funds or investors, independent third-party validation; or competing proposal on substantially similar terms.

- Investments in different parts of the capital structure: neither Hayfin nor any fund or SMA managed by Hayfin will make a material investment in any investee company in which another fund or SMA managed by Hayfin holds a material investment in a different class of such investee company's capital structure. This means that one of the strategies must be a non-blocking minority stake. We would also expect such strategy to be less than one-third of the relevant tranche; From a relationship perspective, Hayfin will also commit to fund managers that it will not initiate an investment on a loan to own basis in the debt of a portfolio company owned by a fund in which the funds strategy is a primary investor.

Example: Establishing financing trees for competitive bidding processes

When Hayfin wants to carry on discussions with multiple bidders in a competitive process, so called "trees" are established. The purpose behind setting up these trees, is to preserve the option in the future to credibly set up separate trees for additional bidders who may approach Hayfin. A member of the tree must inform his client that Hayfin is not exclusively committed to that client in connection with the transaction and shall be free to work with other bidders. In addition, the client must be notified of the members of staff that have been assigned to their particular tree and instruct them not to discuss or send any information to any other staff members. Members of each tree must not discuss the transaction in the presence of any other staff members. All such discussions amongst members of the same tree and conference calls must occur in private in a conference room or an office with doors closed. Documents related to the transaction must not be printed except where strictly necessary. Printed documents must not be left unattended on desks in view of others and should never be left in common areas accessible to others (i.e., on photocopiers or in meeting rooms).

Systems and Controls

When a new conflict is identified, Compliance will review the conflict and discuss it, as appropriate, with members of the Management Committee and/or the Audit and Risk Committee and the General Counsel or other senior persons. The conflict will be addressed on an ad hoc basis or, where necessary, a specific policy will be implemented. Compliance will record conflicts brought to their attention and the manner in which the conflict is addressed.

Each time the firm launches a new product or business line, the Compliance Officer or designee reviews the potential conflict risks and, where necessary, implements a revised policy to address any concerns.

In accordance with regulatory requirements, a conflicts of interest register is maintained, which records the services carried out that may entail a risk of damage to the interests of clients.

On an annual basis, the conflicts register is reviewed by the Firm's Audit and Risk Committee to determine whether any additional key or potential conflicts have arisen and need to be managed or prevented or if any current conflicts have been resolved and thus no longer need to be recorded in the conflicts register. Conflicts will additionally be reviewed to determine whether they are being effectively managed. The conflicts register summarises the means by which Hayfin manages each conflict.

Hayfin holds a mandatory annual compliance training for all of its employees. Breach of Hayfin's compliance policies and procedures, including of its conflicts of interest policy, is deemed a breach of employment arrangements with Hayfin and may lead to sanction under the firm's disciplinary policy, including immediate termination for cause.

HAYFIN

Principle 4: Promoting well-functioning markets

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

It is in the interest of Hayfin, its clients, and society as a whole to have well-functioning financial markets. As such, Hayfin is an active member in representative bodies such as the Alternative Credit Council and the UN PRI. It is important for Hayfin to engage with regulators and other important stakeholders to ensure the best outcomes for our clients.

We continually strive to enhance our analysis of ESG risks for our asset classes. Disruption has emerged as a theme that overlaps heavily with ESG.

Selected (ESG related) disruptive risks for key industries

Industry	
Oil and Gas	Emergence of renewable energy ▪ Amid rising concerns about greenhouse gas emission and climate change, renewable energy sources such as solar and wind now have widespread popular support. ▪ The technologies behind solar and wind power have been emerging fast in recent years, lowering the power generation cost. ▪ With government support in renewable technologies development, the solar and wind power generation is expected to grow substantially in the coming decade.
Maritime Services	Increased environmental sustainability concern ▪ Maritime transport has an inherent exposure to emissions and pollution. Public focus on environmentally friendly technologies such as slow steaming may impose a disruptive risk to the maritime industry. Increased social sustainability ▪ Safety management and crew health and welfare are key social concerns in this industry. ▪ With the development of unmanned autonomous vessels, it may offer an opportunity to improve seafaring welfare and improve vessel safety in general.
Retail/ Services	Increased social sustainability ▪ A social disruptive risk could rise from product quality, safety regulations and price transparency, and customer fairness. As a labour-intensive sector, increasing social concerns about human rights and equality will have potentially disruptive impacts. Technological disruptions ▪ The emergence of technology in e-commerce, payment systems and big data is reshaping the retail industry and are fundamentally disrupting businesses. Digital transformation is happening in every aspect of traditional businesses, from business model to operation formats. It also impacts customers' behaviour and supply chains that change the whole retail system.
Financial Services	Focuses on responsible investing ▪ Sustainable and responsible investing have moved from niche to mainstream in financial industries. More and more investors put ESG considerations in their investment screening process. The increasing disclosure requirements on ESG matters also push companies in a more sustainable direction for business planning. This trend is subjecting the financial industry to a certain level of disruption and will cause changes in long-term company strategy. The development of digital tools promotes innovations in risk management that enable companies to look beyond current risk capabilities.
General Industrials	The key concerns focus on environmental exposure relating to emissions and pollutions, and social exposure relating to safety management. More stringent industry regulation may change some operational patterns in this industry.
Food & Beverage	Access to information

Selected (ESG related) disruptive risks for key industries	
Industry	
	▪ Transparency and traceability of ingredients, production and supply chains to mitigate, widespread customer distrust. Hyper-customised products ▪ Specialised ingredients for additional customer benefits ▪ Non-animal protein for sustainable food production ▪ Advances in alternative packaging products

Source: S&P Global, Deloitte, McKinsey, Hayfin

Hayfin recognises the responsibility for all market participants to address systemic risks and work internally to reflect the changes we seek through external engagement. Since March 2021, Hayfin has been a supporter of the Taskforce on Climate-related Financial Disclosures (TCFD) to formally endorse its framework and to start disclosing against its recommendations both at a corporate and portfolio level in the years ahead. Over the year, we have received a training session from our legal advisors on the framework and have taken steps to prepare us for disclosing in line with the FCA's regulatory requirements.

Hayfin believes that climate change has the potential to affect our investments. As such, we consider it whenever we believe it presents material risk or an opportunity. Climate change, as a component of ESG more broadly, is firmly integrated into our investment process. It is the responsibility of the investment team to analyse material ESG risks, including climate change, and escalate these to the Investment Committee or ESG Deal Committee.

We directly embed climate change within the following tools:

- Exclusions list: states exclusion of oil sands extraction, sale or pipeline involvement and mining or sale of thermal coal.
- ESG deal scoring: explicitly addresses climate risk exposure of the sector a borrower operates in and how the borrower specifically is exposed to, and manages the risk.
- ESG sponsor scoring: explicitly considers how sponsors engage with companies on climate risk.
- ESG margin ratchets: often used to encourage climate risk awareness, disclosure and management.
- ESG annual borrower questionnaire: explicitly seeks disclosure of emissions and commitment to reduction strategies.

We also monitor the extent to which portfolio companies across private and liquid credit funds measure and disclose emissions and commit to a well-articulated emissions reduction strategy. We use this as a point of engagement with sponsors and corporate management where possible.

Specifically, within our Maritime strategy, each investment includes specific targets to be monitored relating to climate risk. This involves measuring scope 1 emissions of invested capital in vessels and air emissions from nitrous and sulphur oxide.

In other strategies such as private credit, Hayfin seeks to include ESG KPIs within loan documentation addressing systemic risk such as climate or diversity. A number of examples are set out below.

Case study: integration of ESG KPIs linked to climate change

An opportunity arose within the investment process to redocument the terms of one of our private credit deals. Due to our focus of enhancing ESG data disclosure, particularly carbon emissions disclosure, we negotiated with the private equity sponsor to set four ESG trigger tests in the loan documentation which could reduce margin if KPIs were met over a defined period with the following tests in place:

- Climate risk: Annual carbon footprint assessment against the Greenhouse gas (GHG) protocol, to be independently verified by third party.
- Climate risk: Setting and achieving carbon emissions reduction targets in line with the Science-based Target Initiative (SBTi) and independently verified by third party.
- Gender diversity: Increase the ratio of women in senior management roles in the Group year-on-year.
- Staff inclusion: Implement recruitment policies for increased gender, ethnic and LGBTQ+ inclusion at all levels.

Case study: integration of ESG KPIs linked to diversity

Hayfin was presented with an add-on capital opportunity for an existing portfolio company. We were able to introduce symmetric ESG margin ratchets (upward and downward margin movement) to drive progress relating to the company's diversity and inclusion agenda as well as hold the company accountable against pre-determined carbon reduction. Two KPI tests were set as follows:

- Percentage of female professionals to reach 50% by end of 2023 (working from a starting point of 38% female professionals).
- Group carbon emissions to be reduced by 10% p.a. over the next 3 years.
- Percentage of services specifically focused on ESG to reach 56% by end of 2023.

Developing our internal data systems for gathering, analysing and monitoring data relating to systemic environmental risks

We acknowledge the importance of data in assessing investments and specifically the increasing demand for credible ESG data to facilitate our ESG investing approach. We also recognize that sourcing good ESG data is more complicated for private market assets as the companies we invest in are typically less advanced in measuring and publishing such data. To address this, we issue an annual ESG borrower questionnaire to all borrowers within the latest vintage of our Direct Lending Fund. We gather, analyse and monitor data relating to climate risk. We expect this to increase our ESG data coverage and better prepare us for engagement with borrowers.

Wider firm initiatives

Hayfin also believes in the importance of cognitive diversity for well-functioning financial markets. As such, our aim is to increase, attract and develop a meritocratic and diverse workforce and to ensure Hayfin's work environment is inclusive and supportive for all employees. We also aspire to be a positive leader and contributor to diversity in the alternative investment management industry and to engage with the community. In order to reach these goals, we have set a series of initiatives that will be ongoing in the years ahead:

1. In the summer of 2022 Hayfin will hold its second summer internship programme, which will focus on attracting diverse candidates. The programme will be in partnership with SEO, a London based charity delivering educational, training, and mentoring support to young people from underrepresented and underserved backgrounds. Sixteen interns will be placed across our London and New York offices. Two of the participants of last year's program have now joined Hayfin full-time.
2. A formal talent acquisition policy that requires that the initial pool of candidates be at least of 50% diverse profiles.
3. Hayfin's Global Women's Initiative ("GWI"), led by Gina Germano (Portfolio Manager and Head of the European High-Yield & Syndicated Loans investment) and Sarah Breiner (Managing Director and Head of Investor Relations), has been a work in progress over the last few months and is due to launch in May 2022. Diversity of thought and skill are critical elements for Hayfin's growth strategy. In an industry where women are underrepresented, Hayfin's GWI is charged with fostering an

environment to propel and retain talented women to successfully meet career objectives, as well as support the attraction of female candidates. GWI is an inclusive, nurturing forum to benefit the professional and personal growth for women of all positions within Hayfin. All employees across the firm are directly encouraged by our CEO to get involved.

These and future diversity and inclusion initiatives will be data-driven to ensure all actions improve diversity within Hayfin, with dashboards to monitor hiring, promotions, and attrition to track progress.

Finally, in addressing systemic risks specific to private markets, we believe there are limitations to what individual asset managers can achieve in isolation and that collaboration is often an essential and much more effective tool. We have been active members of a number of working groups over the year which have addressed systemic issues specific to credit markets, particularly consistent methods of gathering ESG data from borrowers. This is further expanded on in Principle 10.

Principle 5: Review and assurance

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

Internal review and oversight of policies, processes and activity

Hayfin has an ESG Committee comprised of senior management, ESG, investment, legal and client service professionals. The ESG Committee meets monthly to oversee Hayfin's ESG efforts, including reviewing its firm responsible investment policy at least annually or in light of changing landscapes. This policy is also reviewed on an ad hoc basis following any significant market or regulatory developments. All responsible investment policy changes are overseen by our 3rd party legal advisors who provide external challenge and scrutiny. Application of our responsible investment policy is the responsibility of the ESG Committee.

The ESG Committee conducts ESG training for employees annually and oversees the completion of Hayfin's PRI reporting. The ESG Committee also discusses how the firm can improve to become best-in-class in ESG and stewardship across its business lines, identifies new initiatives and determines implementation for new processes.

In 2019, Hayfin established an Audit & Risk Committee, responsible for implementing and overseeing Hayfin's risk management framework covering non-investment risk and providing oversight of procedures, policies and controls and assesses their effectiveness. The Audit & Risk Committee meets quarterly (and more frequently as required) to monitor consistency with Hayfin's risk management framework. The Committee is chaired by an independent, non-executive board member. Other members include Hayfin's Chief Operating Officer, General Counsel, Chief Financial Officer, COO Private Debt, COO Liquid Debt one non-executive directors and a shareholder representative and a member of the risk function who also acts as secretary. The Audit & Risk Committee reports quarterly to Hayfin's board of directors. In 2020, our ESG governance was enhanced further with the ESG Committee reporting directly to Hayfin's Audit & Risk Committee twice a year. The new reporting line strengthens ESG oversight and offers more breadth of escalation.

In 2021, Hayfin made additional enhancements to the ESG investment process. Specifically, the ESG Committee is now reporting directly to Hayfin's Executive Committee quarterly and more frequently when required. Moreover, we have expanded how we undertake investment diligence through newly developed and enhanced ESG tools including ESG deal scoring, pre-deal ESG assessment, use of ESG KPIs within documentation, enhanced engagement with sponsors and the use of an annual ESG questionnaire to improve data coverage. Lastly, we engaged in additional collaboration efforts, which are described in more detail in Principle 10.

Hayfin maintains appropriate policies, processes, and controls, including a Compliance Manual, which are designed to protect the interests of our clients, ensure compliance with applicable laws and provide the right level of accountability and control systems. As part of the risk management framework, Hayfin's compliance team has implemented an annual compliance monitoring programme during which it conducts testing to assess the firm's policies, processes, and controls to ensure that they remain adequate and comply with regulations.

Hayfin has an ESG Deal Committee that meets with analysts to discuss investments before they go before Hayfin's Investment Committee for approval. The ESG Deal Committee includes members of our investment, legal, ESG/risk and partner solutions teams. The ESG Deal Committee reviews ESG analysis of the prospective private credit investments, requests further research if required, encourages deeper engagement with sponsors and borrowers and maintains a database of ESG issues. Where ESG integration processes could be improved, the ESG Deal Committee addresses this within private credit.

External review and oversight of policies, processes and activity

Hayfin and its funds are audited annually by PwC and have always received clean audit opinions. Mercer provide an annual operational risk assessment which covers responsible investment processes. The results of this review is fed back to Hayfin through reporting which is also shared with investors.

Our responsible investing policies and processes are subject to external benchmarking through the PRI's annual assessment process. Hayfin's score in the core PRI modules has been above the median average since our membership in 2018. Additionally, we are in regular exchange with our external legal advisors who provide 3rd party assurance on our ESG and stewardship policies and processes, including training sessions on upcoming regulatory changes and ongoing conversations on industry best practises. Any significant developments to our ESG integration processes are reviewed by our legal advisors who provide continuous challenge.

In addition, our investors are increasingly challenging us on process which we welcome and see as a way to strengthen and develop as an asset manager. We carry out ongoing calls between our ESG team and existing investors and investment consultants who act as an informal 3rd party review, providing feedback and criticism which we factor into our processes where possible.

Example: Internal review of process to improve engagement with Private Equity sponsors

In January 2022, members of the Private Equity team and the Head of ESG reviewed the Hayfin private equity ESG sponsor scoring method used to evaluate a sponsor on ESG integration and stewardship capabilities. Following this review, the sponsor due diligence questionnaire was enhanced by adding additional questions covering:

- ESG Commitment
- Pre-investment ESG integration
- Post-investment monitoring and engagement
- Disclosure and transparency of approach

The team also developed a method for scoring the responses received from sponsors and tiering the results. An additional step was added to the process which involves communicating scores back to sponsors directly through an in-person meeting or phone call. This gives us an opportunity to build our relationship with the sponsor and engage with them on weaker areas identified in their processes. We also use this as an opportunity to gather feedback on our own ESG questionnaires to understand how we can best engage with our stakeholders to gain information. We often feed comments back into our processes to continuously develop clarity of approach.

Hayfin ensures that its stewardship reporting is fair, balanced and understandable by subjecting it to an internal review process. A wide range of individuals of varying levels of seniority are involved in drafting this report. This helps ensure a balanced and understandable approach. At a more granular level, borrower engagement case study reporting is provided to investors which is drafted by the investor relations team and overseen by the ESG team. This again ensures accuracy and clarity. We aim to communicate engagement through simple examples, focused on outcomes.

As further described under principle 6, Hayfin regularly reports to its clients on investment activity, financial updates and ESG considerations, giving them clear insights into Hayfin's stewardship activities. Hayfin also produces the annual PRI reporting summarising our responsible investment accomplishments for the year. We believe that transparency is key and, as such, we publicly disclose our statement for the UK Stewardship Code 2020 on our website (www.hayfin.com/esg) and we share our PRI report and assessment with our clients upon request. We also engage with our clients to ensure that our reporting meets their requirements. We believe that being transparent and promoting open communication contributes to fair and balanced reporting.

As a lender rather than an owner for most investments, Hayfin is limited in its ability to exert control over the companies. We do not normally have voting right and therefore we do not have a voting policy in place.

Refinement of our processes through external engagement

Over the year, we engaged with a number of external data providers to understand market practices and potential ways in which the climate risk could be better understood across our funds, e.g., through the use of proxy data. We also discussed various methodologies for assessing the warming potential of assets and climate value at risk. This engagement was predominantly for training and information sharing purposes with the outcome being a greater understanding of statistical methods for climate evaluation. We plan to explore this further as we take steps towards TCFD disclosure over the coming year.

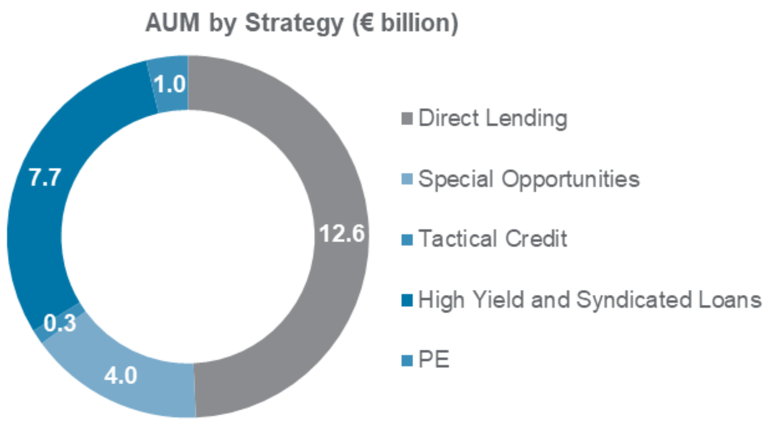
More broadly, we also engaged with our service providers to keep informed of ESG and stewardship best practices and trends within the industry. For example, we engage regularly with a major retail and commercial bank in the United Kingdom on their ESG integration practices and their Task Force on Climate-related Financial Disclosure ('TCFD') report. We work with this bank through our fund financing and identified they had been reporting on climate risk and opportunity for a number of years. We have ongoing conversations with this bank through which we have better understood some common challenges faced when reporting on climate and how to navigate these in the future.

Principle 6: Client and beneficiary needs

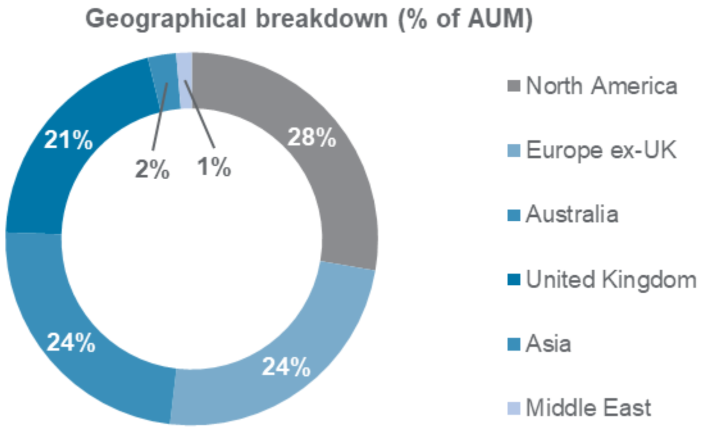
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

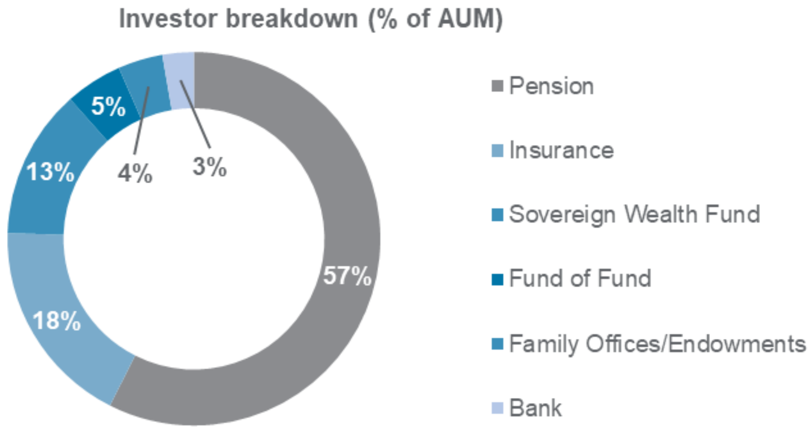
Hayfin is one of Europe's leading private credit alternative asset managers with c.€25.9 billion in assets under management as at 30 June 2022. Hayfin is headquartered in London, with nine additional offices globally including in Frankfurt, Luxembourg, Madrid, Milan, Paris, New York, Tel Aviv and Singapore. The Hayfin team comprises 179 employees including 86 investment professionals, specialised in sourcing, structuring and managing credit investments. Since its inception in 2009, Hayfin has extended loans totalling c. €31 billion firmwide to more than 440 companies predominantly in Europe.

Hayfin manages four core, complementary and cohesive investment debt strategies: Direct Lending, Special Opportunities, Tactical Solutions and High Yield and Syndicated Loans. In its private credit strategies, Direct Lending and Special Opportunities, Hayfin focuses on generally less liquid, "off-the-run" investment opportunities where there is less competition to provide capital and does not rely on relationships with investment banks for allocations of broadly syndicated leveraged loan and high yield investment opportunities. Hayfin has developed industry and structuring expertise across a variety of specialty investment themes and situations. A breakdown of our assets under management across our strategies is below:



Because of the nature of the private credit asset class, all of our investors are institutional. In terms of investor type and geographical location, a breakdown can be found below:





The investment period for our Private Credit strategies is between three and four years, depending on the strategy, with another three or four years in harvesting periods. These timeframes have been designed not only because of our historical experience within our strategies and time to realisations, but because we believe they are the most appropriate for the investor target returns for each strategy and in alignment with the goals set out, such as consistent senior secured cashflows in Direct Lending or unlocking value in complex situation for Special Opportunities.

Furthermore, our funds allow for two one-year extensions to ensure our investors receive the most appropriate value for the assets with an orderly exit for those investments that remain unrealised, thus avoiding forced liquidations that are not in the best interest of our borrowers and our investors.

With regards to our reporting, every quarter the Investor Relations and the Investment team produce the following reports for each of the funds and Separately Managed Accounts:

- Summary of Investments and Portfolio update: a line-by-line track record is provided for both realised and unrealised investments. The report includes updated figures on amount invested, called, carrying value, realised proceeds and expected gross IRR at investment level and at fund level, alongside the fund's deployment and repayment profile and portfolio characteristics.

- Portfolio Breakdown: to promote transparency, this report aims to give as much details as possible on every investment in the portfolio. This document reports both quantitative and qualitative characteristics, including updates on companies' financials like LTM EBITDA, Enterprise Value and Leverage.
- CEO letter: CEO letters are released through Hayfin's administrator portal. This document includes a commentary on the Fund's new positions and realisations over the quarter, together with any relevant updates at Firm's level.
- Audited Financials: The Fund is audited annually as at 31 December, with audited financials made available within 90 days after year end.

Finally, all of our funds have an Advisory Board composed of representatives of selected investors. The Advisory Board advises the General Partner in our funds and resolves issues involving potential conflicts of interest. The Advisory Board will meet bi-annually to review if the fund is meeting its performance targets, potential conflicts of interests and to keep track of the fund's expenses.

For amendments in the fund's Limited Partnership agreement will require Ordinary Consent (the written consent of Investors whose aggregate Investor Commitments represent more than 50% of Total Fund Commitments), Two-Thirds Consent (the written consent of Investors whose aggregate Investor Commitments represent more than 66.66% of Total Fund Commitments), or Special Consent (the written consent of Investors whose aggregate Investor Commitments represent more than 75% of Total Fund Commitments), depending on the materiality of the change.

Across all strategies, Hayfin emphasises risk before return, focusing on capital preservation and loss avoidance through comprehensive research on our investments, a rigorous investment process and active monitoring. As a firm, we are committed to teamwork, transparency and continuous improvement.

Responsibility is embedded in our culture. We have always analysed material ESG issues as part of our overall risk assessment of an investment. In doing so, we are making more informed investment decisions, better protecting against downside risk, potentially enhancing returns, fulfilling our fiduciary duty and protecting the firm's reputation. We embed ESG not only within our investment process, but also within our corporate strategy. By considering ESG at a corporate level, we are contributing to a more sustainable world for our stakeholders, including our clients and their beneficiaries, our shareholders, our borrowers and our employees.

Disclosure

We regularly look to our clients for guidance on how we can meet best practice standards. We actively seek clients' views to ensure we are understanding their evolving demands and needs. A recurring theme of such discussions has been clients' desire to allocate their capital towards efforts that promote and enable a more sustainable economy.

Below we describe two examples of seeking client views and responding through enhancing processes.

Case study: Using investor expectations to enhance climate change monitoring and disclosure

An existing investor, who we have ongoing engagement discussions with, communicated their newly developed net zero alignment strategy and the resulting expectations this strategy would have for our fund. This included beginning to monitor and disclose on net zero alignment of existing borrowers.

After a detailed discussion on their Paris Alignment framework, we considered how we could embed their requirements into our portfolio monitoring and reporting. The outcome was:

- *We defined an internal net zero alignment framework, developed in line with our client's needs and industry standards. This was discussed and agreed by our ESG Committee and is now applied at ESG Deal Committee for ongoing monitoring purposes and as a way to assess the level of climate risk.*
- *We reviewed all portfolio companies within the private credit fund our client invests in to understand the proportion of companies aligned to net zero.*
- *We applied the net zero alignment framework across a separate liquid credit fund to enhance ESG analysis, monitoring and engagement processes. We now also use our alignment assessment as a tool for engaging with company management and private equity sponsors.*
- *We are also working towards adding this as a feature to our investor reporting for the above funds.*

Case study: Engaging with consultants to strengthen ongoing ESG monitoring

A consultant was investigating their ability to invest in a private debt fund, that does not have an explicit ESG objective, but which can state having 'no negative impact' to the UN's Sustainable Development Goals (SDGs).

We engaged in ongoing discussions to understand the consultant's expectations and objectives. We internally carried out analysis to map each target underpinned the UN SDGs to our fund and developed an understanding of how we could enhance our ESG integration, stewardship and monitoring processes to greater support the UN SDGs. The outcome was the ESG Deal Committee began explicitly monitoring whether private credit deals address the UN SDG themes.

The above examples show that working with our investors and listening to their views can results in enhancements to our processes which ultimately lead to better risk management and disclosure. We continue to seek investor views on an ongoing basis.

We produce bespoke reporting for our clients upon request. Since 2021, we include ESG sections for investment case studies, where we report the main ESG considerations found in each investment memo and the points raised in ESG Deal Committee discussion.

We complete annual PRI reporting summarising our responsible investment accomplishments for the year and how we have implemented the PRI principles in our activities. We share our PRI report and assessment with our clients upon request.

Hayfin's Code of Ethics sets out the general fiduciary principles and standards of business conduct. It is Hayfin's policy to act in the best interest of its clients and on the principles of full disclosure, good faith and fair dealing. Hayfin recognises that it has a fiduciary duty to its clients. Acting as a fiduciary requires that Hayfin, consistent with its other statutory and regulatory obligations, acts solely in the clients' best interests when providing investment advice and engaging in other activities on behalf of clients. Hayfin and staff members must seek to avoid situations which may result in potential or actual conflicts of interest with their duties.

Principle 7: Stewardship, investment and ESG integration

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

ESG considerations are analysed for each investment across all strategies. The level to which they can be implemented depends on the strategy and level of influence Hayfin can exercise under such strategy, which is described below.

Integration of ESG and stewardship in private credit strategies

Business Selection

ESG integration begins at business selection stage when the investment team screen for key ESG risks. At this stage, we screen for whether the investment falls on the Hayfin exclusions list, in which case the investment is rejected. The analyst adds a qualitative comment to the business selection memo and, if material risks are identified this is discussed with the portfolio managers. A concluding comment on ESG risk is included in the business selection meeting minutes.

ESG Deal Committee

If the deal proceeds, our investment teams use the SASB industry database to guide their analysis. They may also commission third-party research and seek appropriate disclosure from sponsors, management and other relevant stakeholders.

The investment team writes up a detailed ESG memo outlining all key ESG risks and conclusions in relation to whether these risks are being managed appropriately. This analysis is then submitted to the ESG Deal Committee for review and discussion before the investment can be presented to the Investment Committee.

Investment Approval

The ESG Deal Committee reviews the ESG analysis, encourages further research if necessary and elevates certain issues for discussion in Hayfin's Investment Committee. The ESG Deal Committee minutes including any follow up actions for the investment team (e.g., to formally set ESG KPIs or to acquire further clarification on certain issues) and the ESG memo are included in the Final Investment Committee memo. Hayfin's Investment Committee is ultimately responsible for ensuring that material ESG issues have been considered and adequately addressed.

We summarise key issues from our ESG Deal Committee discussions in an industry database. This database is available for the investment team to use as a guide for ESG analysis and for the ESG Deal Committee to use for reference in their discussions. The database allows us to continually enhance the ESG analysis we conduct on our investments.

Industry Database of ESG Issues

Industry	Environmental	Social	Governance
Oil and Gas	▪ Management and control to prevent corruption and bribery throughout the value chain ▪ Transparency in business operations and production process	▪ Employee health and safety ▪ Diversity and inclusion	▪ Management and control to prevent corruption and bribery throughout the value chain ▪ Transparency in business operations and production process
Maritime Services	▪ Compliance with industry regulations of greenhouse gas emissions ▪ Adoption of renewable energy or cleaner-burning fuels and use of fuel-efficient ship engines	▪ Implementing a safe working environment and emergency management of ship casualties, vessel accidents, worker injuries and hazardous materials release incidents	▪ Governance structures and practices to avoid company exposure to corruption and bribery including wilful or unintentional payments or exertion of unfair influence

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Industry Database of ESG Issues

Industry	Environmental	Social	Governance
	▪ Reduction of shipping duration in marine protected areas ▪ Environment sustainability inputs such as implementing ballast water exchange treatment ▪ Spills or releases of hydrocarbons, hazardous substances, or MARPOL	▪ Proper employee training programmes and periodic dry-docking maintenance periods to ensure employees' safety, health and welfare	
Retail/ Services	▪ Product recall, consumer education, and initiatives aimed at meeting applicable regulations and industry standards ▪ Safe and proper disposal or recycling of materials	▪ Labour code of conduct to ensure proper working conditions, labour practices and safety requirements	
Financial Services	▪ Incorporation of climate change and other environmental risks into investment origination and underwriting processes	▪ Implementation of diversity policies ▪ Training on diversity, mentorship and sponsorship programs, partnership with employee resource and advisory groups, and flexible work schedules to accommodate the varying needs of employees ▪ Policies and programmes for fostering equitable employee representation ▪ Implementation of data security protection ▪ Principles of fairness to customers (borrowers)	▪ Adequate disclosure of risk, suitability, investment alternatives and conflict of interest to clients ▪ Fair compensation structures for executives ▪ Incorporation of ESG considerations in investment decision-making process
Building Materials	▪ Sustainability and use of environmentally focused design principles ▪ Consideration of upstream environmental impacts and use of recycled/renewable materials ▪ Optimisation of packaging and design for consolidated shipping ▪ Wood supply chain management and harvesting from sustainable sources	▪ Efforts to minimise workers' exposure to harmful materials ▪ Proper engineering controls and safety training programmes	
Healthcare	▪ Energy efficiency in operations including electricity, heating, cooling, steam energy and fuel usage ▪ Diversification of energy sources and adoption of renewable energy from hydro and biomass sources ▪ Using recycled materials for packaging ▪ Product take-back and end-of-life recycling	▪ Safety control over clinical research organisations with respect to welfare of research subjects ▪ Effective company policies and procedures to promote product safety ▪ Compliance with applicable regulations ▪ Healthcare accessibility and equality considerations ▪ Initiatives to provide access to healthcare products in developing countries ▪ Pricing transparency and fairness to patients ▪ Reasonable price increase and fair pricing in different regions ▪ Protection of customers' health information records	▪ Proper disclosure of product recalls ▪ Ethical marketing fully representative of potential safety risks and side-effects of products ▪ Oversight of controlled substance prescriptions dispensation ▪ Code of conduct related to conflict of interest, corruption & bribery or other unethical business practices
General Industrials	▪ Environmental impacts associated with project design, siting and construction ▪ Biodiversity impacts including air emissions, water discharges,	▪ Company commitment to workforce safety matters including implementation of safety protocol, safety training	▪ Disclosure of energy efficiency and water efficiency performance improvements

Industry Database of ESG Issues			
Industry	Environmental	Social	Governance
	waste management, natural resource consumption, soil erosion and hazardous chemical usage ▪ Disposal related risk in relation to hazardous substances, pollutants, or contaminants ▪ Development of products with energy-conserving design and efficient resource utilisation ▪ Incorporation of climate change consideration into long-term business strategy planning	and maintaining a safe work environment	
TMT	▪ Sustainability in energy consumption ▪ Consideration of product waste and proper disposal	▪ Management practices and guidelines on their use of customer data ▪ Data security and cyber-attacks ▪ Concentrated nature of telecommunications, cable and satellite companies ▪ Responsible use of IP protection to balance innovation without restricting competition ▪ Systemic or economy-wide disruption may be created if the network infrastructure of telecommunication services companies is unreliable and prone to business continuity risks	▪ Initiatives to recruit from and develop diverse talent pools ▪ Workforce diversity is important for innovation and helps companies understand the needs of their diverse and global customer base
Food & Beverage	▪ Water consumption ▪ Food and packaging waste ▪ Energy consumption ▪ Chemicals and energy from refrigeration, heating, ventilation, lighting and air conditioning.	▪ Food safety and quality control ▪ Contamination by pathogens, hazardous substances, or spoilage leading to human health risks ▪ Transparency around nutritional information and mitigating public health concerns around obesity ▪ Responsible supply chains and sustainable suppliers with focus on conservation, water scarcity, animal welfare, fair labour practices and climate change ▪ Customer data protection	▪ Working conditions and fair wages
Real Estate	▪ Energy consumption and utilities including heating, lighting and use of appliances ▪ Water efficiency in building construction and usage to reduce environmental impact, as well as operating costs for real estate assets ▪ Tenant oversight for sustainability		▪ Internal transparency around business operations and maintaining a high standard of ethics ▪ Employee training, oversight, policies and procedures to build client trust and loyalty
Business Services		▪ Customer data security and mitigation of threats including cybersecurity breaches, malicious activities or employee negligence	▪ Diversity and workforce engagement to garner knowledge, talent, advice and a variety of technical skills ▪ Prioritising diversity at management levels can help attract the best talent ▪ Fair treatment and equitable pay ▪ Fostering professional integrity and providing adequate training and support to employees
Metals & Mining	▪ Carbon dioxide from fuel use during mining, ore processing, and smelting activities	▪ Protecting communities in conflict zones or areas with weak governance	▪ Management of working conditions and labour relations ▪ Health and Safety in mining operations due to the often-hazardous working conditions

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Industry Database of ESG Issues

Industry	Environmental	Social	Governance
	▪ Hazardous air pollutants impact on human health and the environment ▪ Conservation of energy and water resources ▪ Disposal of waste that can be hazardous or chemically reactive Site damage leading to negative impact on ecosystems	▪ Security forces to protect workers and prevent human rights violations in local communities ▪ Shared community resource impact through mining operations, such as competition for access to local energy or water resources, air and water emissions, and waste from operations.	▪ Ethical approach and transparency in payments to governments or individuals

Source: Sustainable Accounting Standards Board (SASB), Hayfin

In addition to the above, we integrate ESG through the following means:

- Use of ESG margin ratchets within primary private credit deals which help us encourage and drive improvements and disclosure on sustainability.
- Sponsor scoring which involves undertaking a detailed due diligence process with sponsors backing deals within our private and liquid credit funds and as well as sponsors whose funds we invest in as part of our private equity business. Further detail on this is set out in the private equity section below.
- Our proprietary ESG deal scoring is applied across private and liquid credit deals. This assists us in assessing the level of ESG risk within our funds and provides a means for monitoring risk over time.
- Our ESG borrower questionnaire is issued annually to borrowers to increase ESG data coverage across our funds, enabling us to report on key ESG metrics to investors and monitor ESG trends at portfolio level.

The fourth vintage of our Direct Lending Fund is classified as Article 8 under the EU's SFDR. As part of this, Hayfin commit to reporting on the implementation of the above tools to investors annually and aim to demonstrate progress year on year.

Portfolio monitoring and exit

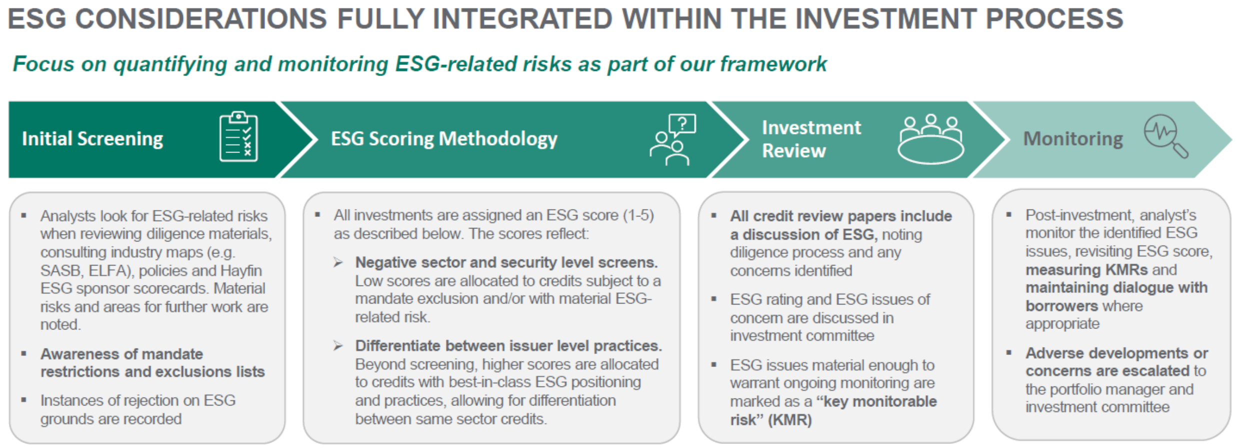
Where material ESG matters have been identified, the responsible investment analyst engages with sponsors and/or management on an ongoing basis to monitor these issues. Material ESG developments are included in commentary in the monthly portfolio sheets and, where appropriate, brought to the attention of the ESG Deal Committee for incident recording and the Investment Committee for consideration.

Portfolio monitoring is guided by our internal tools and external frameworks including SASB. In addition, we use a third party when there is no private equity sponsor involved for additional background checks on management teams. Our investment teams will selectively engage with third party providers to dig into certain aspects of ESG diligence (e.g., environmental reports on buildings).

Integration of ESG and stewardship in liquid credit strategies

In contrast to private credit where we are a large lender, we are often a minority participant within our liquid credit strategy. Therefore, our ability to engage is more limited. We look to engage directly with borrowers at the time of issuance and through ongoing discussions with management. Private equity sponsors have ownership stakes in most of the companies we invest in; therefore, the liquid credit analysts are also able to utilise our internal sponsor research.

Below is enclosed an overview of how Hayfin integrates ESG considerations within the liquid credit investment process.



Category	Score	Description	Investability
Investability Considerations	5	Credit excluded based on non-quantifiable ESG-related risk and/or subject to Hayfin firmwide exclusion policy	
	4	Credit subject to mandate exclusion, i.e., investable but not eligible in one or more of the HYSL Fund, CLOs or DLF SMAs (e.g., adult entertainment, gambling, payday lending, recreational marijuana, weapons manufacture, involvement in oil sector)	*Mandate dependent*
Sector & Issuer Considerations	3	Investable credit, not subject to exclusions but one or more material ESG risks identified or moderate to high level of ESG risk present in industry (e.g., energy/heavy industrials/chemicals), combined with average to weak issuer ESG score.	
	2	Some ESG issues identified. Combination of low to moderate ESG risk within industry with good issuer ESG score, or, medium to high ESG industry risk offset by strong issuer ESG score.	
Issuer Considerations	1	No material ESG issues, Low level of ESG risk within industry and strong issuer ESG score.	

The High Yield and Syndicated Loan Fund is classified as Article 8 under the EU's SFDR. As part of this, Hayfin commit to reporting on the implementation of the above tools to investors annually and aim to demonstrate progress year on year. We report on greenhouse gas emissions and net zero alignment of issuers across the fund. We also report on the ESG issuer and sponsor scoring.

Integration of ESG and stewardship in private equity strategies

PRE-INVESTMENT / DUE DILIGENCE PHASE

Hayfin Private Equity incorporates ESG-related matters into its investment analysis / due diligence and decision-making process. Such topics are included in Investment Committee Memoranda and discussed with the Investment Committee.

Sponsor ESG Due Diligence

For all its investments (fund and asset), Hayfin Private Equity has developed an assessment framework (Sponsor ESG Questionnaire and Sponsor ESG Scorecard) to measure (Sponsor ESG Score) and evaluate its Private Equity Managers' commitment to ESG. The result of the assessment is documented in Hayfin Private Equity investment documentation and discussed during the Investment Committee.

The Sponsor ESG Questionnaire is sent to each General Partner ("GP") under due diligence by the investment team. The questionnaire must be filled-in by the GP before the Investment Committee Preliminary Investment Recommendation or Final Investment Recommendation meeting, so that the investment team can present ESG findings and Sponsor ESG Score to the Investment Committee.

The Sponsor ESG Score is presented by the investment team at the Investment Committee in the form of a summarised one pager (Sponsor ESG Scorecard) including i) breakdown of the final Sponsor ESG Score; ii) benchmarking against other GPs in the portfolio; and iii) summary of GP strengths and potential areas of improvements (see below). The Sponsor ESG Scorecard has been developed to assess the ESG integration and engagement capabilities of the GPs we work with as well as their overall commitment to investing responsibly.

SPONSOR ESG SCORECARD

JUNE 2022

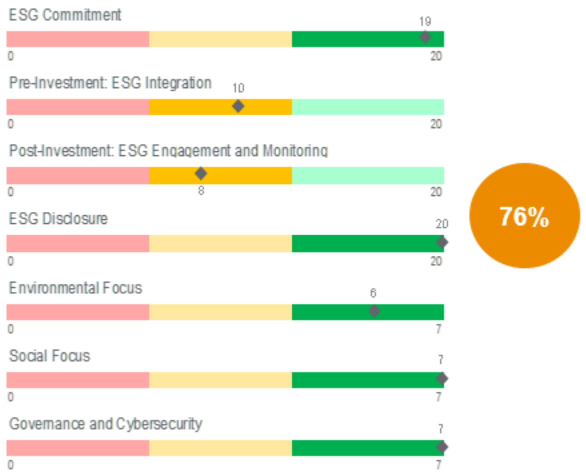
HAYFIN

Fund	**Leading PE sponsor**
Global ESG Score	**76**
ESG Risk	**Low**
ESG level	**Level 2**
ESG controversies	**No**

Benchmark

Portfolio average	**71**
Best score	89
Lower score	39

Breakdown of the final ESG score



Strengths & Areas of improvements

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- ESG Commitment
- ESG Disclosure
- Social focus
- Governance and Cybersecurity

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- Environmental focus → i) risk and opportunities associated with climate change & environmental issues not assessed during ESG due diligence

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- ESG Integration → i) ESG section not always included in IC memos; ii) do not always do 3rd party external ESG due diligence on assets pre-investment; iii) no ESG representative in ICs
- ESG Engagement and Monitoring → i) ESG KPIs are not externally audited; ii) no ESG training for management teams of portfolio companies; iii) no ESG targets are set for portfolio companies; iv) remuneration of portfolio companies not linked to ESG criteria

If the investment is approved, the Sponsor ESG Scorecard is discussed with the GP and benchmarked against the overall Hayfin Private Equity portfolio. The deal team and Head of ESG will also discuss with the GP its strengths and areas of improvement to encourage and help the GP improve its ESG processes.

Asset ESG Due Diligence

For all its direct asset investments (i.e., co-investments and GP-led secondaries), Hayfin Private Equity has developed an ESG Pre-deal assessment framework (Checklist) aimed at identifying ESG risks with particular focus on i) governance (with an emphasis on cybersecurity); ii) social; and iii) environmental factors.

The results of the ESG Pre-deal assessment are documented in Hayfin Private Equity investment documentation and discussed with the Investment Committee.

If conflicts with our ESG Policy are identified, the Investment Committee together with the deal team defines a clear action plan to resolve these before or shortly after the investment.

OWNERSHIP / MONITORING PHASE

To manage ESG related risks and value creation opportunities during the investment period, Hayfin Private Equity have implemented an oversight programme to monitor ESG at the GP and portfolio company level, through a selection of KPIs provided by its invested GPs.

Sponsor ESG Scorecard Annual Update

Every year, Hayfin Private Equity reassesses the status of the ESG commitment of its Private Equity Managers with the re-submission of the Sponsor ESG Questionnaire to all its invested managers. The deal team is responsible for the documentation and the update of the results and the Sponsor ESG Scorecard. The deal team is also responsible for engaging with the GP to address any potential ESG related risks and to promote continuous improvement in the Sponsor ESG engagement.

Annual ESG Survey for Portfolio Companies

Every year, Hayfin Private Equity submits to its Private Equity Managers an Annual ESG Survey which aims to collect and monitor the progression of ESG matters within portfolio companies. The results of the survey are analysed and presented in the following documentation:

- Q4 Client Reporting (sent to external investors)
- Q4 Portfolio Monitoring (discussed internally with Investment Committee)

Following the internal review, the deal team is responsible for engaging with the GPs on identified ESG issues raised during the Q4 Portfolio Monitoring. In addition, every year the Private Equity team will select a theme to engage with all its invested GPs (e.g., cybersecurity has been selected as a theme for engagement in 2022), with the goal to raise awareness.

In the case of private equity investments, the Investment Committee closely analyses the ESG sponsor scorecard, suggesting any improvements to process directly to the sponsors to ensure consistency with our broader library of GP ratings, and identifying key ESG topics to be addressed by the investment or ODD team with the private equity sponsor before approval.

Examples of ESG factors impacting acquisition

Below we set out examples of how ESG issued have directly impact acquisition across our funds.

Private Credit: Example of ESG issues impacting acquisition	
Background	Leading manufacturer of parts for the oil and gas industry, sold globally. Products were sold into a high quality and small market niche with high mechanical or chemical resistance requirements.
ESG issue	Governance: The business was family-owned without institutional/private equity involvement.
ESG analysis	We commissioned an independent background investigation of the company and its activities as well as of its key management team and owners. Expert firm Alaco was instructed. The report conclusion raised red flags in relation to certain business practices and the compliance culture of the relevant executives. These issues were largely attributable to an owner-dominated, autocratic top-down management style which had undermined good governance procedures of the company.

Private Credit: Example of ESG issues impacting acquisition	
Outcome	We consulted our non-executive director and collectively decided not to proceed with the investment. Following our decline of the opportunity, the business was later sold to a large institution who subsequently discovered fraudulent activity. Eventually the company faced bankruptcy and ultimately the value of the business was deemed far below the purchase price.

For a more thorough explanation for the different levels of engagement depending on the type of investment (Private Equity, Private Credit or Liquid Credit), please refer to our answer in Principle 9.

Principle 8: Monitoring managers and service providers

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

Service Providers

Hayfin has a formal due diligence selection process for any new third-party service providers. The process includes a review of the relevant service areas, including process, technology, quality of staff and senior management, any relevant cyber security risks, operational and financial controls, any risks around GDPR and data protection compliance, any other applicable laws, rules or regulations and the counterparty's commitment to Hayfin as a client. In addition, Hayfin conducts reference and background checks on the team members.

Hayfin has service level agreements (SLAs) in place with many companies, incorporating key performance indicators (KPIs) to help oversee the services provided. In addition to ongoing daily and weekly interaction, Hayfin's CFO and members of Hayfin's Finance and Operations team participate in quarterly meetings to discuss SLAs and KPIs. In addition, on at least an annual basis, members of Hayfin's Finance and Operations teams perform onsite visits. Hayfin also receives copies of these counterparties' Internal Controls Reports such as ISAE 3402 and their DR, BCP and Cyber Security policies.

Hayfin regularly meets alternative third-party service providers to discuss opportunities and gathers market research to enable it to benchmark the service levels and pricing from its core service providers.

We also engage directly with our legal advisors on their corporate sustainability initiatives including how they are progressing on climate reporting and emissions reduction strategies. We discuss wider ESG topics on a regular basis including diversity work and environmental restoration initiatives.

External Managers

Hayfin interacts with private equity sponsors through both its private equity and credit strategies since many of these sponsors have ownership stakes in our credit investments. We monitor the sponsors to ensure that they incorporate best stewardship practices into their services. As further described under Principles 7 and 9, our investment teams across private credit, liquid credit and private equity create a sponsor scorecard in which they rate the sponsor on Responsible Investment metrics. Where sponsors are identified as being weaker in certain areas, the investment team or ESG resource directly engages through a physical meeting or video conference call to communicate scope for improvement.

We continue to monitor ESG issues throughout the life of an investment and will escalate issues to encourage improvement and/or to address deterioration. An example of such escalation with a private equity sponsor is as follows:

Investment made in Hayfin's Private Equity Funds strategy	
Background: Our sponsor focuses on investments in Nordic companies operating in the pharmaceutical, medical technology, healthcare services and other health-related industries.	
ESG issue	▪ At the time of investment, the sponsor had no ESG policy in place and was not a signatory to the UNPRI. No ESG analysis or tracking of ESG KPIs was included within investment process or IC documentation either. These factors presented an overall ESG risk.
ESG analysis	▪ Whilst ESG was not a focus for the sponsor at time of investment, Hayfin believes in being a constructive partner. We requested in legal documentation that ESG policies and procedures be implemented within two years.
Outcome	Post-investment, Hayfin Private Equity has maintained an active dialogue with the sponsor on the implementation of these policies, procedures and best practices. ESG policy is now in place after our PE team

Investment made in Hayfin's Private Equity Funds strategy	
Background: Our sponsor focuses on investments in Nordic companies operating in the pharmaceutical, medical technology, healthcare services and other health-related industries.	
	provided examples and guidance. The company implemented a comprehensive strategy on governance pre- and post-investment along with incorporating ESG into their investment process from the start (due diligence phase) all the way through the final investment decision. Hayfin Private Equity continues to work with the sponsor, helping to prioritise ESG topics, and provide key learnings based on broad experience within the industry.

Principle 9: Engagement

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

Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over the companies. However, Hayfin seeks to engage on ESG matters in all circumstances. Through engagement, we strive to increase transparency of information, raise awareness of ESG issues and encourage better ESG practices. The level of engagement depends on the type of investment.

Private Equity

Hayfin has a private equity team that invests in a fund of fund structure. As part of their process, the team engages with private equity sponsors to understand their ESG philosophy, policy and procedures. This process and the corresponding sponsor scoring output is described under Principle 7 in detail. The engagement continues throughout the life of the investment with quarterly ongoing calls.

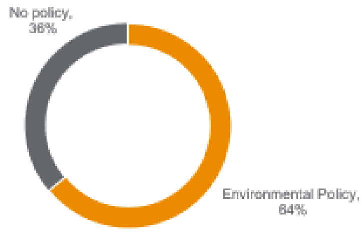
In addition to our sponsor scoring and engagement, we have implemented an oversight programme to monitor ESG at the portfolio company level through an annual survey requesting a selection of KPIs. In 2021, we received responses from the majority of private equity companies to whom we sent the survey.

- In comparison to our 2020 KPIs questionnaire, we have increased the scope of the questionnaire with additional KPIs.
- Compared to 2020, the aggregated results of the survey show improvements in some key KPIs:
    - *Environmental*: 64% of portfolio companies have an environmental policy (vs. 48% in 2020) and 61% have a CO_2 reduction program (vs. 36% in 2020).
    - *Social:* 80% of portfolio companies have an anti-discrimination policy (vs. 76% in 2020) and 71% offer profit sharing scheme (vs. 35% in 2020).
    - *Governance*: 77% of portfolio companies have an internal and external whistleblowing policy (vs. 37% in 2020) and 43% have a Cyber security insurance (vs. 28% in 2020).

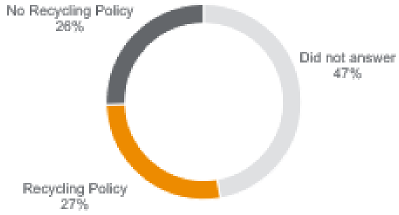
Private Equity Funds Portfolio Monitoring

Environmental

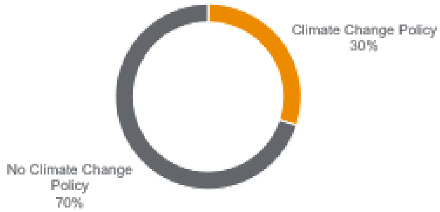
Environmental Policy



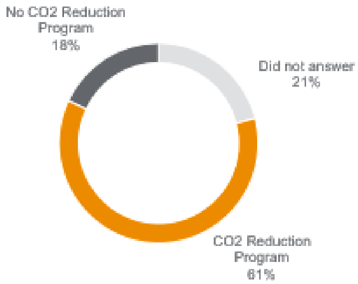
Recycling Policy



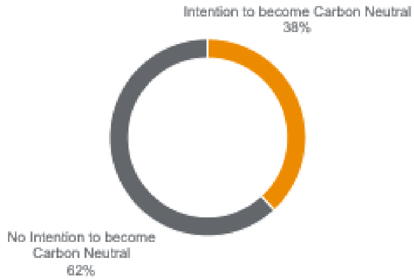
Climate Change Policy



CO2 Reduction Program



Intention to become Carbon Neutral



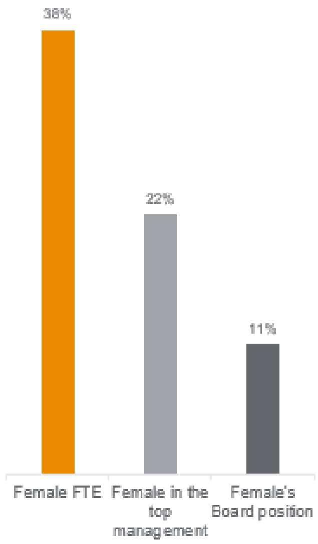
Environmental Incidents

No environmental incident reported on the period for all the portfolio companies that answered the question.

Social

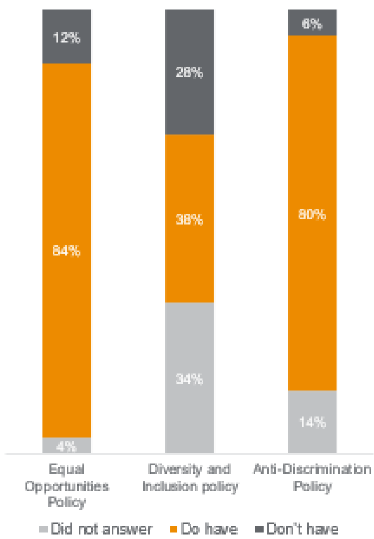
Female Employment

Proportion of Female FTEs, Female in Top Management Positions and Female's Board positions



Inclusion Policies

Equal Opportunities and Anti-Discrimination Policies

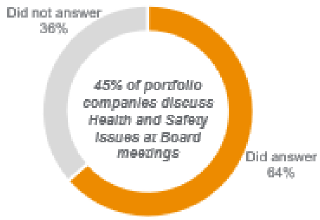


Employees Remuneration

Employees with profit sharing schemes

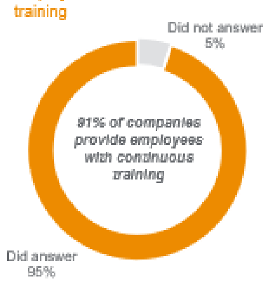
Health and Safety Issues

Discussed at Board meeting



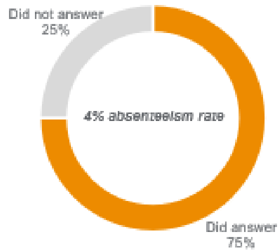
Training

Employees who received continuous training

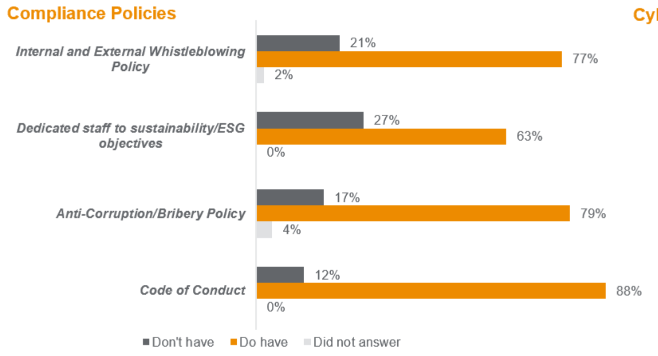


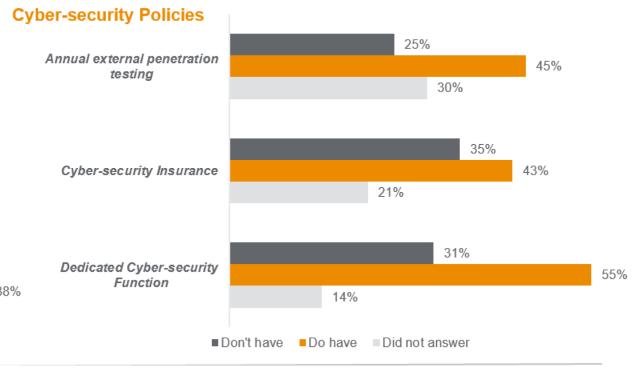
Absenteeism

Absenteeism rate observed



Governance





Private Credit

Many of the sponsors we have a relationship with on the PE side of our business have ownership stakes in our credit investments (private and liquid). Therefore, a strong synergy exists between our private equity and our credit teams, whereby the latter have access to internal research on private equity sponsors as part of their investment diligence.

Furthermore, within private credit, we are usually the sole or largest lender, which allows us to exert some influence over our borrowers. Our private credit analysts may further engage with the sponsor to request more information, dig deeper on certain issues, elevate concerns or encourage improvements regarding specific borrowers. For investments where there is no private equity sponsor involved, the analysts will engage directly with our borrowers to understand their approach to ESG, request more disclosure and influence ESG practices wherever possible e.g., through the use of ESG margin ratchets. Governance is a key issue for non-sponsored investments, and we actively engage with management teams to understand their organisational structure and culture. As a matter of course, we will also engage with third parties to conduct background checks on management.

Hayfin has an ESG Deal Committee as described in our response to Principles 2 and 7. It is mandatory for analysts to discuss ESG considerations for each investment before they go before Hayfin's Investment Committee for final approval. The ESG Deal Committee will encourage a deeper level of engagement wherever possible. Engagements are tracked and outcomes are monitored for reporting to our investors.

The following table summarises results of our engagements over the past year:

Engagement Examples	
Objective	Following our engagement
Increasing transparency	▪ Annually we request from sponsors their ESG policies and additional reports (e.g., environmental) if these are not provided with initial due diligence materials
Raising ESG awareness	▪ If we do not already have an ESG rating from our PE team for a sponsor with whom we would like to partner for financing, our investment team will contact them to set up a diligence session ▪ We engaged with an investor who was seeking ways to develop a net zero strategy at portfolio level. We suggested ways in which the investor could consider this holistically across multiple asset classes. We have an ongoing dialogue with this investor to understand how private debt can assist in meeting their targets. ▪ We have had phone calls with sponsors to raise awareness of the importance of ESG integration. We have assisted one of our sponsors to understanding how they can begin to disclose against climate change.
Influencing practice	▪ Within our maritime practice, we routinely engage with shipowners regarding fuel consumption and emissions, encouraging not only compliance with targets set by IMO, but also ambitions to exceed regulatory requirements

Engagement Examples	
Objective	Following our engagement
	▪ Over the year, we joined the Global Maritime Forum's 'Getting to Zero Coalition', focusing on getting commercially viable deep sea zero emission vessels powered by zero emission fuels into operation by 2030.

Example: Engagement in our liquid credit strategies

Company description	Issue description	Issue category	Engagement method	Goal reached?	Engagement outcome	Transaction result
Specialty pharma company focusing on niche branded prescription medicines mainly in North America and Europe	Historical over-pricing resulting in UK CMA investigation / fine	Governance	Direct engagement with management and sponsor	Ongoing	More information about ongoing CMA investigations, re-assurance that pricing (mal-)practices were a historical one-off by former management team and strategy has been completely overhauled. PE sponsor has now completely replaced senior management team.	Hold
Online travel agency headquartered in Sweden, focused on offering low-priced B2C / leisure traveller-oriented flight solutions	Historical over-pricing resulting in UK CMA investigation / fine	Environmental	Direct engagement with sponsor	Ongoing	Published their first Sustainability Report. Joined initiatives to reduce environmental impact of flying, e.g., technological development of sustainable fuel by membership to SkyNRG and GoClimateNeutral, climate compensation of own travel, enable customers to climate compensate	Hold
Provider of funeral services, including both burial and cremation services	Refinancing/maturity risk	Governance	We engaged with management and had an extensive dialogue with company's advisors and other key lenders	Yes	Our engagement focused on sponsor alignment and stewardship given the elevated leverage and historical underperformance against plan. We had several iterations with company's advisors and other key lenders in order to	Hold

					achieve a reduction in leverage and more favourable terms on the A&E.	
Operator of car parking concessions in Spain and Portugal	Environmental policies and business model resilience in transition to electric vehicles	Environmental	Direct engagement with company CFO and sponsor	Yes	Management and sponsor described environmental policies, including disclosure of emissions data and publication of inaugural sustainability report (May 2021). Sponsor also discussed strategy and diligence around EV transition and associated impact on car park model.	Hold

Principle 10: Collaboration

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

Hayfin is an active member of several collaborative initiatives. In addition to being a signatory to the UN PRI since 2018 and a supporter of the TCFD since 2021, Hayfin has, over the last 12 months, engaged with other investors and stakeholders to drive change on specific issues where we recognize that collaboration is more effective to drive that change. Some of the issues we have focused on include the lack of ESG data available to lenders and the evolution towards carbon neutrality, specifically for the maritime industry. Below is an overview of the collaborative engagements in which we took part to address these issues:

1. **Alternative Credit Council**
   The Alternative Credit Council (ACC) is a global body that represents asset management firms in alternative credit. We are part of the ACC's Responsible Investment Working Group. The Working Group is focused on the following:

- **Investor education:** There is often a lack of consistent investor expectations when it comes to ESG requirements. The ACC has established a joint asset manager and investor forum to facilitate knowledge sharing and investor education on core private credit topics, of which ESG will constitute a priority.
- **Data capture from borrowers:** Members of the Working Group would like to capture more consistent and relevant data from borrowers using templates.
- **Supporting members:** The Working Group benefits from peer-based discussions. The ACC will support members through the sharing of information and sound practices and will establish dialogues with other industry bodies.
- **Consultations:** The ACC will coordinate responses to consultations on behalf of its members to support our shared objectives.

Over the past year, through the ACC collaboration, we have responded to consultations on ESG ratings, diversity and inclusion in the financial services, non-financial reporting disclosure and data protection reforms.

2. **UN Principles of Responsible Investing**

Hayfin signed up for the Principles of Responsible Investing (PRI) in 2018 in recognition of their leadership in responsible investing. In 2021, Hayfin became a participant to a UN PRI working group. The working group's goal was to address the lack of norms for sharing ESG data between sponsors and lenders by developing a standard template for ESG due diligence. The template will enable market participants to gather standardised ESG information to be shared during the investment process while integrating existing ESG standards and frameworks, resulting in better quality of ESG data throughout the investment cycle. The initial template was the result of collaboration between two fellow PRI signatories, and was refined through the working group (20 additional PRI signatories including Hayfin). After many iterations of the template, the working group tested the template on live transactions during the year before making it publicly available on the PRI website.

Example: Collaborative engagement to standardize ESG data reporting across private markets

Hayfin actively took part in the PRI's Private Equity-Private Debt working group (as described above) to develop the PC-PE ESG Factor Map. The map streamlines ESG information sharing throughout the investment process and facilitates collaboration between sponsors and lenders.

Following the finalisation of the above ESG Factor Map, a wider collaborative group was formed jointly by the PRI, the Alternative Credit Council (ACC) and the Loan and Syndications and Trading Association (LSTA). Reflecting on the need to deliver consistent ESG data across credit markets, public and private, Hayfin worked with peers within this group on an industry-wide reporting template. The remit of this group was to take the PRI's template as a starting point and further enhance the questionnaire through developing industry specific questions which can be prioritised to maximise, and make relevant, data disclosure from issuers. Hayfin was directly involved in the wider working group and also a sub-group focused on developing a systematic way of asking industry specific questions. In addition, the group is working towards developing educational resources to support borrowers in completing the final template. This is due to be completed in the coming months.

Hayfin believes that standardised reporting will help investors better understand and compare ESG data across credit markets.

3. Global Maritime Forum

Hayfin is a member of the Global Maritime Forum whose main objective is to shape the future of global seaborne trade to increase sustainable long-term economic development and human wellbeing: Through collaboration, the forum is working on initiatives including: the Sea Cargo Charter which establishes a common baseline to assess and disclose whether shipping activities are aligned with climate goals and the Poseidon Principles which is a new global framework for responsible ship finance.

During the course of the year, Hayfin joined the Global Maritime Forum's Getting to Zero Coalition, an alliance of 200 organisations within the maritime, energy, infrastructure and finance sectors, supported by governments. The Coalition is committed to getting commercially viable deep sea zero emission vessels powered by zero emission fuels into operation by 2030 and move to full decarbonisation by 2050.

Principle 11: Escalation

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

Hayfin avoids countries, sectors and issuers based on ESG and reputational concerns, such as weapons, coal, pornography and countries against which there are sanctions in place. Any proposed investment involving persons that could result in negative public or market perception regarding Hayfin's business practices (whether true or not) are regarded as posing a reputational risk to Hayfin. Reputational risks may arise in various circumstances and there can be no exhaustive checklist of risk factors. However, key issues we look out for include:

- non-sponsor-backed businesses or businesses with a major individual shareholder;
- businesses operating in geographies or industries with high levels of corruption;
- businesses that have been subject to legal proceedings or investigations that raise reputational considerations; and
- businesses in which politically exposed persons have an economic or property interest, or with which a politically exposed person is otherwise associated.

As a general rule, enhanced due diligence may be required in respect of geographies and industries that historically have a heightened risk of corruption considerations. The relevant countries where this increased risk exists generally include emerging markets, including (by way of example only) China, Indonesia, Malaysia, and Russia. Industries with a heightened risk that may require enhanced due diligence include construction, insurance, natural resources, oil and gas, petrochemicals, shipping/transportation and telecommunications.

Where a perceived reputational risk to Hayfin has been identified, the investment team immediately consults with the firm's General Counsel (or a designee) to determine whether, as part of Hayfin's due diligence process, external background checks or other actions are required on the relevant companies and individuals involved.

Enhanced due diligence where these geographies and/or industries are involved may include:

- background checks on the companies and persons involved;
- enquiry as to whether the target company, its management and shareholders/stakeholders demonstrate knowledge and awareness of applicable anti-bribery laws and a culture of compliance;
- enquiry as to the existence of written compliance policies and procedures;
- diligence of investigations, legal proceedings, penalties and other enforcement action that may have been taken against the target company, its shareholders and other stakeholders and management; and
- obtaining enforceable contractual protections in transaction documentation specifically reference sanctions/anti-bribery laws.

Hayfin is committed to compliance with EU and US sanctions laws and applicable economic sanctions laws of other countries in which it operates. Hayfin has implemented the following process to address sanctions compliance issues, as follows:

- Red flag screening: The responsible analyst, as part of the ordinary course due diligence work, identifies whether there exists any business exposure associated with sanctioned countries. Where such exposure is identified, the responsible analyst notifies the General Counsel, who will determine which persons and entities need to be screened via Hayfin's sanctions software screening tool.
- Enhanced screening: Where Hayfin proposes to acquire a controlling equity stake in a company, or where a proposed debt investment is distressed and there is a reasonably likely scenario where Hayfin ultimately acquires a controlling equity stake, the legal team undertakes screening of the company,

its directors and senior management, key stakeholders and shareholders and key third parties, including suppliers and customers.

Where a sanctions compliance concern has been identified, the investment team immediately consults with the General Counsel, who will determine whether the firm has the ability to proceed with the investment and assess the need for securing commitments, conditions, representations, warranties and/or indemnities to address relevant sanctions compliance concerns.

If ESG and reputational risks increase for an investment in the portfolio, the investment team will discuss with Hayfin's ESG Deal Committee and Hayfin's Investment Committee, and we will determine our options for reducing this risk, including exit if necessary.

Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over the companies. However, we seek to engage with our investee companies and escalate deterioration internally and with management teams in all circumstances. For our liquid credit strategy, we are planning to develop an engagement framework intended to be used by the investment team to guide a structured approach to engagement with borrowers. The framework will be developed to prompt the investment team to consider various issues throughout the course of engaging and to clearly articulate engagement objectives and outcomes.

Occasionally, we take equity stakes in companies, or we end up owning equity due to deterioration of an investment. In such cases, we recognise there is more we can do.

Example: Company where we are the majority owner

Hayfin initially invested in a French leading distributor of building material products in December 2018 to refinance the existing debt, then funded an add-on to the unitranche in November 19 to support an acquisition. Finally in July 2020, Hayfin contributed to the new money in the form of preferred equity following the Covid crisis and as part of Hayfin becoming the majority shareholder of the business. Hayfin controls the board and all decisions.

Following Hayfin becoming the majority shareholder of the business, Hayfin undertook an operational due diligence (ODD) review of the company and is working closely to assist Hayfin's investment team in helping the business to improve its operations. As part of its ODD, Hayfin conducted a series of interviews with senior members of the company including the CFO, Head of Legal and Head of CSR. Hayfin summarised its findings in a report during April 2022 and will provide feedback to the management in the coming months. Some of the issues identified relate to the lack of harmonisation of processes and internal controls which should be strengthen. In addition, improvements could be made on the technology side given the low digitalisation of the business.

During our upcoming feedback session, our intention is to set out clear steps to enhance the business's operations.

In 2018, Hayfin hired an operational due diligence specialist to focus on conducting operational diligence on private equity sponsors and liaising with investors who are conducting operational diligence on Hayfin. Subsequently, we expanded the role to include performing operational diligence on companies with whom we own a majority equity stake within our credit strategies. A component of this diligence is assessing ESG integration and stewardship issues. We summarise below a questionnaire that we have used for escalation purposes over the past year with companies we have an ownership stake with.

Ownership ESG Questionnaire and KPIs	
General	▪ Do you have a company ESG policy?
Environment	▪ Do you have an environmental policy? ▪ Do you have a recycling policy / initiative? What is the % waste recycled? ▪ What is the percentage of disposed hardware that is recycled? ▪ Do you monitor your electricity consumption (kWh)? ▪ Are there any initiatives to reduce electricity consumption (e.g., LED lights, installing automatic lighting controls…)? ▪ Do you have a programme to reduce carbon dioxide emissions? ▪ Do you know the firm's total carbon dioxide emissions? ▪ Do you have an initiative to become carbon neutral? How? ▪ What is the average travel cost per employee?
Social	▪ Do you have a diversity policy / equal opportunities / discrimination policy? ▪ What is the % of women FTEs? ▪ Do you have HSE (health, safety and environment) procedures? ▪ Has the firm paid charges, fines or penalties in respect of breach or non-compliance of any health & safety laws, standards or regulations and/or breach of any labour laws, standards or regulations? If yes, please provide details
KPIs	▪ Annual employee turnover ▪ Voluntary turnover ▪ Percentage of women FTEs ▪ Percentage of women in middle management ▪ Percentage of women in top management ▪ Absenteeism rate ▪ Sick days (FTEs) ▪ Employment growth ▪ Percentage of employees with either profit sharing or bonus schemes Number of reported accidents at the workplace
Governance	▪ Do you have a Code of Conduct, anti-corruption policy, whistleblowing policy, modern slavery policy? ▪ Is employee industry or regulatory training conducted annually? ▪ Has the firm paid charges, fines or penalties in respect of Fraud, bribery, money laundering or facilitation of tax evasion?
Data protection	▪ Do you have a company data protection/privacy policy? ▪ Do you have a dedicated cybersecurity function? ▪ Have employees received basic data protection/privacy training?
KPIs	▪ Percentage of personnel who received annual information and security awareness training ▪ Number of security incidents ▪ Number of data protection policy breaches that trigger an immediate incident response ▪ Number of reported data protection policy breaches related to IT security
Other fraud, abuse and legal KPIs	▪ Number of copyright disputes and infringements ▪ Number of fraud cases ▪ Number of reported cases of corruption ▪ Number of court judgements filed against

To date we have not had to exit any investments due to escalation, which we believe is a testament to the thoroughness of the ESG integration in our diligence and pre-investment ESG integration process.

Principle 12: Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

Risk management is critically important at Hayfin. All investments are regularly monitored by the investment team, who are responsible for:

- continuous monitoring of comparable companies, market and industry events and news and discussions with market participants; and
- preparing a monthly monitoring report, which includes a comparison of financial performance versus the investment case and prior periods; a re-evaluation of risk factors, including ESG, and trigger events; updates of key credit metrics, industry and competitor developments; and a proposed internal risk rating of the investment, based on performance.

All private credit assets are assigned a risk weighting which is reassessed as part of monthly monitoring:

RC 1 – Performing above expectation

RC 2 – Performing at expectation

RC 3 – Performing below expectation (Heightened monitoring applies here)

RC 4 – Watchlist (Heightened monitoring applies here)

RC 5 – Problem asset (Heightened monitoring applies here)

Where an investment has materially underperformed and in other appropriate circumstances, the situation is presented and discussed at a formal review meeting for watchlist credits, typically on a monthly basis. This is attended by certain members of Hayfin's investment committee, chaired by the Chief Risk Officer and, where appropriate, the full investment committee together with the relevant analysts.

Hayfin believes that early detection results in more informed judgments on sector trends and ultimately investment decisions. Hayfin looks to actively manage risks in its portfolio, engaging regularly with our investee companies.

Hayfin tracks investments from sourcing to ongoing monitoring via a front office facing customer relationship and workflow management platform. It also provides a flexible dashboard to facilitate Hayfin's investment management activities, portfolio risk monitoring and investment pipeline monitoring.

In addition, to mitigate risk at portfolio level, Hayfin maintains single position, industry, geography limits at a portfolio level. Hayfin also monitors overall portfolio metrics including leverage and LTV and size of the company.

To mitigate risk at the asset level, Hayfin conducts thorough analysis of all risk factors, including ESG, structures each asset conservatively (leverage and LTV) with appropriate levels of protection through documentation, including ESG information provisions and ESG margin ratchets where appropriate. Hayfin's monthly monitoring process is structured to take a proactive approach to addressing any credit or performance related issues well ahead of a default.

We seek to take early, decisive action to manage underperforming businesses and credit events. We have a dedicated team of eight lawyers, including four dedicated professionals within our Legal Execution and Workouts team. This team analyses every investment, working alongside external legal advisors and supporting the investment team in negotiation and documentation for new loans. When an investment has underperformed, we mitigate risk by demanding equity support or by forcing the sale of assets to reduce debt. We also consider selling our position to a third party if the value is compelling. If necessary, we will take control of the borrower.

Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over the companies. However, we seek to engage with our investee companies and escalate deterioration internally and with management teams in all circumstances. We do own majority equity stakes in a few investments, and we recognise there is more we can do in these situations as we have outlined in Principle 11.

Legal Disclaimer

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