Muzinich & Co.
Sustainable & Responsible Investment Policy, Procedures, and Statement

September 2021

Muzinich & Co

"Sustainability, the protection of nature, respect for others and responsible development are fundamental to our economic wellbeing and successful long-term investment. We should work closely with our clients to help them meet their goals of promoting good environmental standards, sound governance and fair social policies. These are beliefs and practices that lie at the heart of everything we do."

George Muzinich, Founder & Chief Executive Officer

Contents

About Our Firm and Our Philosophy on Sustainable & Responsible Investment

Muzinich & Co.[1] is a privately owned, institutionally focused investment Firm specializing in public and private corporate credit. Our established track record stretches back over 30 years, highlighting our ability to deliver what we believe to be attractive risk-adjusted returns in a variety of market conditions with no style drift. We are acutely aware of our responsibility to protect our investors' capital and to invest for the long term.

Muzinich & Co., Inc. and its affiliates became a signatory to the UN-supported Principles for Responsible Investment in 2010 and continue to use the six Principles as a foundation for our responsible investment approach.[2] We believe that sustainability will be one of the dominant investment themes for the foreseeable future as changes in policy, regulation, consumer preferences, and the need for greater resource efficiency create important new risks and opportunities for businesses and those that invest in them.

We believe it is critical to have a strong understanding of which types of environmental, social and governance ("ESG") factors are most likely to be material to a company's short, medium, and long-term survival and success. As a manager of corporate credit investments, we primarily focus on factors with the potential to negatively impact the credit strength of companies within our investment universe, but understand that good management of sustainability risks is a critical element of corporate resilience.

As a long-term investor, we also believe it is important to consider the potential negative impact of our portfolio companies on the environment and society, as that may ultimately impact investment value; but also because we believe that we can help minimize those negative impacts without necessarily harming returns. Ultimately, we believe that an ESG-aware approach is well aligned with our fiduciary obligations.

We also consider it important to engage companies in our investment universe to help identify and manage important ESG risks. While we very rarely hold equities directly or have exposures via hybrid or convertible securities, we strongly believe that as a lender of capital we can exert some influence over management decisions relating to ESG issues for the better.

Furthermore, we believe climate change poses one of the single greatest risks to the stability of the global economy and will also be a major driver of future investment opportunities. We believe investors have a critical role in identifying and managing physical and transitional climate risks. We also aim to offer investors solutions across a range of credit strategies to bring their investments in line with a trajectory towards net zero portfolio greenhouse gas emissions by 2050.

Sustainable finance is evolving rapidly, and we will continue to develop our policies and processes with the aim of positioning ourselves among the industry's leading practitioners in this regard.

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[1] This document contains information, data and opinions prepared by Muzinich & Co. Limited (Muzinich & Co. Limited is owned by Muzinich & Co., Inc. which together with its global affiliates, except where specified, throughout this questionnaire, are referred to as "Muzinich", "Muzinich & Co." or the "Firm")

[2] Details of the UNPRI Principles are available in the Appendix.

Sustainable & Responsible Investment Policy

We began incorporating client-specific ESG considerations into our investment strategies over 20 years ago and launched our first ESG Best-in-Class strategy[3] in 2011. Today we continue to broaden and enhance our responsible investment strategy. Below we outline our Sustainable & Responsible Investment Policy ("this Policy").

ESG Integration	Our investment teams across the various sub-asset classes of credit that we manage seek to consider and integrate important ESG factors into their research, investment decisions, and ongoing monitoring of our investments.
ESG Engagement	We seek to engage companies in our investment universe with the expectation that they enhance their ESG disclosures and/or improve their management of material ESG business risks, and negative environmental and social impacts.
ESG Transparency	We seek to disclose our responsible investment policies, procedures, and investment outcomes objectively to enable our investors to make informed decisions about the ESG aspects of their investments.
ESG Public Policy	We seek to engage public policymakers both individually, and alongside our peers, to further encourage and facilitate corporate and investor sustainability initiatives.
Customized ESG solutions	We seek to offer solutions to investor ESG objectives by applying a range of different ESG approaches across the different investment strategies that we manage.
Managing climate risk	We recognize the importance and urgency of the requirements inherent in the Paris Agreement and will seek to align our investment approach in a way that supports a low carbon transition.
Corporate Responsibility	We seek to align our own sustainability practices as a Firm with the expectations we hold for investee companies and aim to minimize our environmental footprint while acting with responsibility to all employees and stakeholders.

Policy Scope & Review Process

The varied characteristics of different sub-asset classes of credit or financial instruments that we invest in, such as bonds, loans, leases, asset financing, private debt, securitized debt, derivatives and money market instruments requires that we take a nuanced approach and may apply this Policy to greater or lesser extent accordingly. Nevertheless, we endeavor to apply this Policy across all of the investment strategies that we manage, in vehicles structured in any way, including, but not limited to, mutual funds, commingled funds, and separately managed accounts. Further details on our tailored approach to responsible investment are described herein.

This Policy is drafted by Muzinich's Director of Responsible Investing with guidance and support from our internal ESG Advisory Group. The Policy is reviewed and approved by members of the Muzinich Boards of Directors. Our ESG Advisory Group will review the Policy at least annually and will be responsible for suggesting updates to capture any necessary changes in accordance with our views on responsible investment best practices.

[3] See appendix for definition.

Responsible Investment Governance and Resourcing at Muzinich

We feel strongly that sustainable and responsible investment requires a firmwide approach. Since signing the UN-supported Principles for Responsible Investment in 2010, we have built up a group of internal ESG champions who now participate in our ESG Advisory Group. The ESG Advisory Group's 15-members[4] represent many of the key functions of the Firm, including board members[5], senior management, research, portfolio management, risk, client servicing, compliance, and sales teams. The ESG Advisory Group meets every two months to discuss, develop, and implement our ESG policies and to disseminate key responsible investment developments to their respective teams.

Our ESG Integration Group is a sub-group of the ESG Advisory Group and comprises five[6] staff members who are wholly or partially dedicated to the day-to-day implementation of our ESG procedures. Our Director of Responsible Investing chairs the ESG Advisory Group and reports to the Boards of Muzinich & Co. on a periodic basis.

Staff ESG Training & Incentives

Responsible investment and ESG touches on almost every aspect of our business including, credit research, risk management, legal, client servicing and regulatory compliance. To ensure that our staff are familiar with the key concepts of responsible investment, we provide regular ESG educational sessions led by our Director of Responsible Investing or external experts, including staff from our external ESG data providers. We also ensure that all new joiners have been familiarized with this Policy and relevant procedures where relevant to their role. A number of our staff members have taken or have registered for more formal self-taught or university-led ESG and sustainability training courses and certifications.

For investment professionals, the variable part of their remuneration is evaluated based on the overall performance of Muzinich's portfolios (including portfolios with ESG dimensions). We would note that as of Q1 2021, the responsibilities, evaluation and compensation of our public debt research analysts includes a formal responsible investment component which is segregated from other responsibilities or compensation metrics. We would also note that Muzinich includes learning goals for responsible investing in the personal development plans for various team members.[7]

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[4] As of 31 August, 2021. Oversight and membership subject to change.

[5] Tatjana Greil Castro and Alex Mckenna are members of the Board of Muzinich & Co. Limited. Cheryl Rivkin is a member of the Board of Muzinich & Co., Inc.

[6] As of 31 August, 2021. Oversight and membership subject to change.

[7] Please note that Muzinich's disclosures relating to ESG and remuneration for EU Regulation 2019/2088 Article 5 requirements are available on our website here https://www.muzinich.com/wp-content/uploads/SFDR-Article-5-Statement.pdf

Implementation of Our Sustainable & Responsible Investment Policy

This section describes specific procedures relating to our Policy such as, among other items, ESG integration, engagement, and reporting. We note that industry expectations of best practice are evolving rapidly, and as such we anticipate further development of many of the procedures described.

In laying out our firmwide approach to sustainable and responsible investment, we intend for the detail set out in this document to address various disclosure requirements set out in EU Regulation 2019/2088 or the Sustainable Finance Disclosures Regulation (SFDR).[8]

Tailoring Sustainable & Responsible Investment to Different Asset Classes

Muzinich manages various public and private corporate debt strategies which can differ significantly in variables such as investment liquidity, capital structure, duration, investor concentration, availability of publicly reported ESG information, and investor access to management. While our sustainable and responsible investment objectives are consistent across our strategies, we seek to tailor our approach in an effort to align our investments with our Policy as best we can.

Figure 2 highlights some of the considerations we factor in when developing sustainable and responsible investment approaches in different asset classes. We note that these express our experience in general terms, but that there may be exceptions to each characteristic.

Figure 2: Responsible investment considerations for different asset classes and sub-asset classes of credit.[9]

	Public equities	Bonds	Loans	Structured finance	Club investments	Direct Origination Investments
ESG disclosures /Availability of third-party ESG data	Good	IG – good HY – adequate (< IG)	Limited	Limited	Limited	Limited
Ability to influence management via engagement	Good	Adequate (<equities)	Adequate (<equities)	Limited	Limited (< direct origination)	Limited (> club investments)
Options for incorporating ESG into investment decisions	Exclusions Positive screens ESG integration Thematic Impact	Exclusions Positive screens ESG integration Thematic Impact	Exclusions ESG integration Thematic	Exclusions Thematic	Exclusions ESG diligence Impact	Exclusions ESG diligence Impact
Influence over loan terms	Not applicable	Negligible	Negligible	Negligible	Limited to Adequate	Adequate

[8] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "EU Sustainable Finance Disclosures Regulation") (Available online) https://eur-lex.europa.eu/eli/reg/2019/2088/oj

[9] For illustrative purposes only. This figure should not be interpreted as an indication of Muzinich practices.

ESG considerations for public debt

For bonds, loans, and structured finance investments, we seek to balance robust analysis of a relatively large investment universe with suitable consideration of material ESG factors. As a general rule, we find that the availability and quality of reliable, timely ESG data increases as we move up the credit rating scale to the highest-rated investment-grade issuers. While this is true for ESG disclosures, this does not necessarily imply that higher-rated companies are less exposed to ESG risks. To counter this trade-off, we expect a more thorough analysis of ESG and non-ESG factors as we move down the ratings scale. We also typically engage high-yield issuers more on ESG disclosures and participate in initiatives to improve ESG research in relevant strategies.[10] Equally, as we are more likely to hold a larger proportion of the debt of smaller issuers, we would expect to have a greater access to management for engagement purposes in those situations.

ESG considerations for private debt

Investments in private market instruments are by definition less liquid than public markets, typically involve more concentrated portfolios of smaller, privately held companies which typically disclose significantly less ESG information. Our approach to ESG integration in private debt is therefore more qualitative and doesn't allow for meaningful comparison between companies on a broad range of ESG metrics however we are typically afforded a longer window in which to conduct research on individual investment opportunities. We also find as a general rule that we can have better access to management, and can therefore conduct deeper and more tailored ESG due diligence on a company and engage on specific ESG issues from the pre-investment phase.

Sourcing ESG data

Sourcing consistent, high-quality, timely ESG data on a global universe of credit securities is essential for robust ESG integration, but is also a major challenge for all investors. Our analysts aim to identify credit-relevant ESG issues as part of their fundamental, bottom-up analysis. In addition, where available we use third-party ESG data which includes, among other items: raw ESG data points; aggregated issuer ESG scores and rankings; ESG-related controversy records and scores; involvement in industries or business activities deemed to be controversial; alignment with international ESG standards or norms; and, a range of information related to carbon emissions and climate change.

We believe it is important to fully understand third-party ESG data and company ratings in context, and not to rely solely on information such as aggregated scores at face value, especially when integrating it into analyst recommendations and portfolio construction. Beyond static scores, we believe it is important to understand whether a company is actively addressing ESG issues and to consider whether their ESG risk management is improving or deteriorating.

We seek to maintain strong relationships with our external, independent ESG data providers and to actively share feedback where we believe it will add to the quality of their research. We also strive to improve the research coverage of our investment universe. To this end, we commission our primary ESG data provider to initiate new research on roughly 20 companies each year, making the results of this research available to their wider client base.

[10] See further comments on our relationship with our independent ESG research provider and the European Leveraged Finance Association (ELFA) initiative.

Integrating ESG Factors into Our Investment Process

We believe ESG factors (including Sustainability Risks, as defined by the EU Sustainable Finance Disclosures Regulation[11]) are becoming increasingly material drivers of business risk and opportunity due to tightening regulations, changing consumer perceptions and awareness, and the need for greater resource efficiency among other things. We therefore consider ESG analysis to be a useful lens through which we can analyze a company's securities alongside more traditional financial factors.

We consider "values-based", "ethical" or "socially responsible" factors to be conceptually different from ESG factors (as defined herein) as they may not necessarily present an immediate financial risk to a company, although in practice, values-based and ESG considerations can frequently overlap.

Muzinich may consider different types of ESG information for different purposes such as:

- consideration of ESG factors which might drive business risk and opportunity as part of the credit research process;
- consideration of historic controversies or incidents relating to ESG factors which could raise red flags in our research process;
- consideration of issuer involvement in specific industries (e.g., tobacco products) or business conduct (e.g., gross corruption) which are excluded from specific funds or separately managed accounts;
- consideration of absolute ESG scores or relative ESG rankings for screening which involves a minimum threshold (i.e., ESG Best-in-Class screening);
- consideration of the positive sustainability impacts of a business or debt use-of-proceeds, such as sustainable bonds or green bonds, when seeking to align investments with those positive impacts; and/or,
- consideration of the quality of an issuer's ESG disclosures and/or risk management when deciding whether to engage that issuer.

It is not our objective to consider a prescriptive or exhaustive list of ESG factors when conducting ESG analysis, but to identify the issues which might be most material on a case-by-case basis. There are however certain factors which we consider to be priority ESG risks for certain industries, or which we believe to be universally important. Examples of ESG factors which might be considered as part of investment research are provided in Figure 3.

Figure 3: Examples of ESG factors which might be considered as part of an integrated research process.[12]

Environmental	Social	Governance
Biodiversity Environmental regulation Greenhouse gas emissions Natural resource use Physical climate risks Waste and pollution	Community relations Diversity and inclusion Health and safety Human rights Labor relations Public health	Audit practices Board skills Corporate accountability Corporate disclosures Fraud and corruption Internal controls

[11] See appendix for definition.
[12] Source: Muzinich & Co., as of 31 December 2020. Provided for illustrative and example purposes only, not necessarily considered for all investments or all-inclusive.

ESG Integration in Public Debt

Our investment teams are responsible for incorporating ESG considerations into their credit analysis or due diligence processes, written evaluations, and investment decisions. As explained herein, our approach to ESG integration varies depending on which sub-asset class our analysts are researching. As a manager of corporate credit, we are primarily interested in identifying industry and company exposures to ESG issues which might drive credit risk, as well as an issuer's management of those issues. We are also increasingly focused on the positive and negative impacts which companies have on environmental and social factors. Our analysts do not follow a mechanistic or rules-based approach to determine which ESG issues might be most material, but instead assess those issues on an issue-by-issue and company-by-company basis.

We recognize that ESG issues can impact company performance in different ways and to varying degrees depending on contextual factors such as company sector, size, geographic location, and the vehicle or asset class we invest in. Wherever practical, our analysts consider ESG factors alongside traditional financial metrics, such that one does not supersede the other.

In addition to our analysts own research, our public markets investment team supplements analysis with data from third-party independent ESG specialists. We estimate that we have access to some form of third-party ESG research on over 95% of the companies with investment-grade credit ratings. The ESG research coverage for high-yield issuers – which are often privately held – is less comprehensive at around 70-80% of our investable universe. We note that the range of individual ESG data points reported by issuers will vary greatly – these numbers represent the proportion of issuers that have reported sufficient ESG information to generate an ESG score or rating.

In practical terms, where we are able to gather reliable, comparable ESG data, we integrate that into our IT systems for research, trading, and reporting. Our standardized credit research templates, when used by our analysts to make recommendations to our portfolio managers, generally include a dedicated ESG section which comprises a quantitative "ESG Scorecard" and a more qualitative "ESG Commentary".[13] These commentaries, when completed by research team members, will typically include a range of information such as: their views on a company's exposure to certain ESG risks and the materiality of those risks; the perceived accuracy of any ESG data provided by third parties; any ongoing engagement activity involving the company; and forward looking comments on a company's commitment to specific timebound ESG targets. When used, these research templates are shared with the whole public markets investment team and are stored on a shared platform where they can be accessed by all members of the investment team.

To further supplement our ESG research, informative research from academics, sell-side research providers, non-governmental organizations and elsewhere is stored in Muzinich's ESG library, which is accessible by all in our company intranet. Figure 4 demonstrates conceptually how our ESG integration process works.

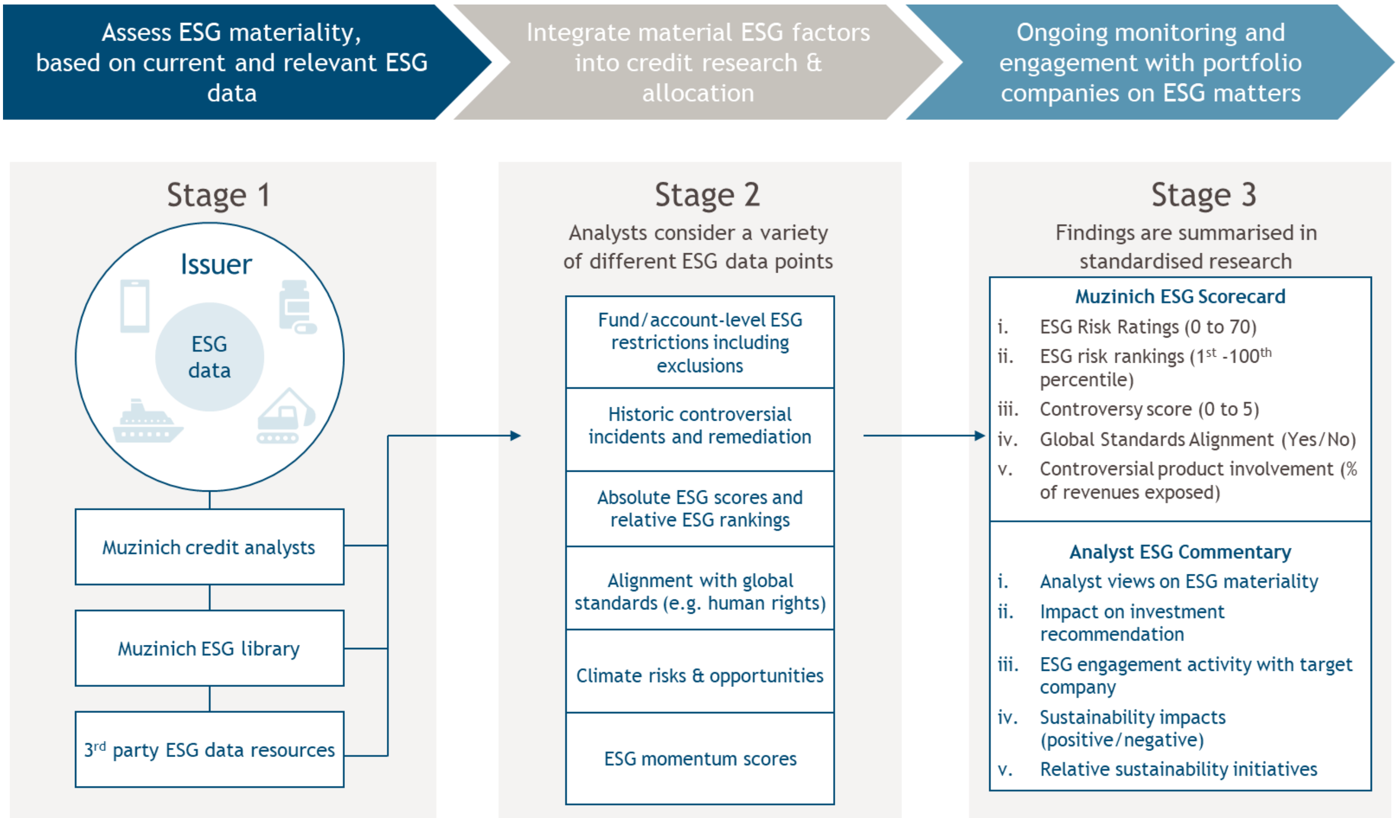
[13] Investment recommendations can be made by analysts to portfolio managers through credit research templates, conversations, chats, and/or email. Redacted examples of the ESG research sections of our credit research templates are available on request.

Sourcing ESG Data from Independent Providers

The process of gathering ESG data is generally specialized and resource intensive. While our analysts typically collect financial and non-financial information as part of their research process, we can also rely on specialist third party providers to complement their primary research. Examples of the types of data we source from these providers include, among others: ESG raw data; ESG scores and rankings; involvement in controversial products; incidents or general business conduct; greenhouse gas emissions data; climate risk data; and data required for regulatory disclosures.

Muzinich currently sources data from two primary ESG data providers, Sustainalytics and Institutional Shareholder Services (ISS) ESG. We are committed to reviewing our data sources at least every two years to ensure we are able to source appropriate data in a cost effective manner. Decisions on data providers are reviewed by our ESG Advisory Group and ultimately approved by our board of directors. Among our considerations for ESG data providers are the quality of the data in terms of accuracy, timeliness, coverage and the additional insight it brings; the efficiency with which we can process data and the general user-friendliness of the data platforms provided.

Figure 4: How we can integrate ESG research into our fundamental bottom-up analysis of listed credit securities.[14]



[14] Source: Muzinich. For illustrative purposes only and subject to change. The approaches outlined herein are tailored to each strategy and not all are uniformly applied across all investment recommendations, strategies or client accounts. Risk management does not imply no or low risk.

ESG Integration in Private Debt

Our private debt investment team seeks to identify credit-relevant ESG issues as they relate to business risks as part of their initial due diligence and ongoing monitoring and engagement with portfolio companies. This assessment is typically based on: their own experience in dealing with specific sectors; input from our Director of Responsible Investing; and, recognized ESG materiality frameworks such as the Sustainability Accounting Standards Board (SASB) Materiality Map.[15]

In 2021 we started to roll out a standardized ESG framework to support our due diligence on European investments and portfolio reporting to investors. The framework allows us to score a range of qualitative ESG factors covering nine broad ESG themes, ESG credentials of the private equity sponsor (where applicable), and industry or conduct-based exclusion criteria. Any material findings from our private debt team's initial ESG due diligence are commented on in a standardized template which appears in the team's investment memorandums and are discussed during Investment Committee meetings, prior to making an investment decision. The ESG due diligence templates include: consideration of key ESG risks and opportunities; summaries of ESG issues the investment team should seek to engage the company on; and, priorities for ongoing monitoring should we decide to invest. In certain situations, Muzinich's Director of Responsible Investing may be invited to attend Investment Committee meetings as an observer to provide advice on specific ESG considerations.

ESG Engagement

Investor stewardship or engagement forms a critical part of our research and risk management process. As corporate debt investors, we do not typically hold rights to vote on a company's management practices. Nevertheless, as a lender of capital for critical business expenditures and growth, we can express opinions about and exert a certain amount of influence over the businesses that we lend to. We believe it is important to use this influence and engage with companies in our investment universe to actively identify, manage, and mitigate ESG business risks and/or minimize negative impacts on the environment or society. We strongly believe that ESG engagement whilst maintaining exposure to a company is more likely to bring about positive outcomes than simply divesting from that company in most situations. In situations where a company shows no willingness to respond to an engagement, we may ultimately consider divestment as the next best course of action.

Members of our investment team seek to engage companies when they identify a material lack of transparency around a specific issue, particularly where important ESG information is not adequately disclosed. Ensuring ESG topics are discussed in meetings with company managements also raises the awareness of these topics. We typically prioritize engagements based on criteria such as: investment exposure, severity of the ESG issue, target industry, our expectations of access to management, and the likelihood of a positive outcome. Prioritization of engagement activity is essential as we believe more targeted engagements can be more effective. Opportunities to engage typically come in the form of company or investor-led bilateral meetings, phone calls, written correspondence, discussions with intermediaries/underwriters, or during investor events and company road shows.

[15] The Sustainability Accounting Standards Board (SASB) Materiality Map is available online: https://www.sasb.org/standards/materiality-map/

Where we perceive poor management of ESG risk exposures or a lack of transparency, we provide feedback directly to the company or via intermediaries, particularly when choosing not to participate in a primary offering on ESG grounds. Findings from our company engagements support our ongoing monitoring and research on an issuer, and are fed back into our research templates to be shared with the wider investment team.

Muzinich maintains an ESG Engagement Framework (the "Framework") which is accessible to all staff on our intranet for the purposes of recording ESG engagement activity. The Framework details information such as: names of target companies and representatives; ESG engagement themes; progress of the engagement activity; specific ESG targets or objectives set; and, notable engagement outcomes. The Framework was formulated in late-2019, and as we roll the Framework out across our public debt platform, we will gather further engagement data throughout 2021. We intend to report publicly on our engagement procedures and activities in line with the underlying principles of the UK Stewardship Code (2020) after having gathered engagement data for 2021.[16]

As outlined previously, a different approach is required for less liquid investments, such as private debt and other alternative credit strategies, where borrowers may have more or less incentive to engage with lenders on ESG issues. A key determining factor here is the level of investor concentration, with clear differences between club loans involving multiple investors with varied interests, and direct lending opportunities involving a single investor. Regardless of the incentive, wherever we perceive material risks to investment value we may seek to engage privately held companies to address those risks.

Negative Screens & Exclusions

We can apply negative screens or exclusions to several public and private market strategies in line with investors' expectations and our own views on what we consider to be an acceptable level of reputational, financial, and/or sustainability risk. We have the capabilities to screen for a range of industry or norms-based criteria with different revenue and/or production-based thresholds. The majority of our European-domiciled comingled funds which are classified as Article 8 financial products apply negative screens based on a specific ESG policy described in the Appendix of this document. In addition, we apply our Controversial Weapons Policy to all of our commingled funds across with public and private debt investments and to separately managed accounts on request.[17]

To ensure that exclusion policies for specific public debt strategies are applied, our Risk team programs rules relating to excluded companies into our trading platform. Where it is not possible to apply automated rules, we follow a documented procedure for ESG eligibility checks which involves certain members of our ESG Integration Group, Investment, and Risk teams. Strategies with explicit exclusion policies are also reviewed periodically by our Portfolio Risk Analytics Committee (PRAC) to ensure no breaches have occurred. In cases where negative screening rules are passively breached, our policy for Muzinich branded comingled funds is typically to sell all related securities within 30 days of notification.

[16] Muzinich's holding statement on the 2020 UK Stewardship Code online https://www.muzinich.com/wp-content/uploads/New-UK-Stewardship-Code-Disclosure-Statement-2016.pdf
[17] Further details of Muzinich's Controversial Weapons Policy are available online: https://www.muzinich.com/about/responsible-investing

ESG Best-in-Class Investing

We apply positive screening or ESG Best-in-Class overlays to select investment strategies. Our objective is to target companies which display ESG risk-management leadership relative to their index or industry peers as determined by our third-party ESG data provider. We implement ESG Best-in-Class overlays by pre-screening a potential investment universe usually represented by an index and/or automatically blocking new trades in companies pending approval from our ESG Eligibility Team. Relevant company ESG ratings are included in analyst write-ups, when write-ups are produced for an investment recommendation, and discussed by the investment team so that our portfolio managers know which securities should be eligible for a particular strategy before approaching the ESG eligibility group. In cases where companies passively breach an ESG threshold (for example an issuer falls below a screening threshold as a result of an updated ESG assessment) the portfolio manager will seek to strategically trade out of their position in that issuer within a reasonable timeframe.

As with our negative screening approach, positive screening, by its nature, reduces a given investment universe. Nevertheless, we believe such screening can also offer advantages based on our conviction that companies which display better ESG practices tend to be more financially resilient over longer time horizons. This belief is supported by several studies showing strong correlations between the two.[18]

ESG Reporting

We believe transparency is a critical element of robust sustainable and responsible investment practices, both in terms of corporate ESG disclosures to investors, and asset manager disclosures to their clients. In addition to this document, we report on our ESG policies and procedures broadly through the PRI Reporting Framework which is completed by over 3,500 PRI signatories annually.[19]

At the individual investment strategy or product-level, we also offer customized ESG reporting for specific client requests, to the extent that we can provide the data and format requested, including, but not limited, to:

- Portfolio ESG 'profiles' including breakdowns of holding company ESG ratings, controversy scores, exposure to controversial sectors, relative ESG 'profile' versus a benchmark, and more.
- Summary of a strategy's compliance with an ESG policy (flagging any breaches of screening criteria).
- Narratives on select portfolio companies relating to specific ESG themes (e.g. positive impacts, exposure to renewable energy, company ESG engagements and so on).
- Portfolio environmental and carbon emissions profiles in absolute terms and relative to a benchmark, including key climate metrics such as carbon-to-revenue, carbon-to-value invested, and weighted average carbon intensity (WACI) of a portfolio.
- Additional climate metrics including portfolio alignment with specific climate scenarios (e.g. two degrees centigrade of global warming), exposures to underlying 'green' and 'brown' revenues, and carbon price risk exposures.

[18] See for example: Friede, G., Busch, T. & Bassen, A., 2015. ESG and Financial Performance: Aggregated Evidence from more than 2,000 Empirical Studies. and Bauer, R. and Hann, D. (2011). "Corporate Environmental Management and Credit Risk", Working Paper, Maastricht University

[19] As of 31 January 2021, 3,756 investment organizations and service providers had signed the UN-supported Principles for Responsible Investment.

From 2022 we intend to offer more standardized periodic ESG reporting at the strategy level including SFDR disclosures on items such as alignment with the EU Taxonomy, Principal Adverse Sustainability Impacts (PAI) data points, and additional ESG and carbon emissions data points for all of our UCITS and select other strategies.

Our Commitments to Sustainable & Responsible Investing

We actively seek opportunities to promote sustainable and responsible investment practices among our clients, industry peers, policy makers and other stakeholders. These activities may include:

- participating in collaborative ESG engagements and signing public statements on specific ESG issues.
- participating in industry initiatives which promote and facilitate investment and corporate sustainability initiatives.
- offering guidance and education on ESG practices to clients and prospective clients.
- sharing expertise on sustainable and responsible investment practices via speaking engagements at investment industry conferences.

Figure 5: Voluntary ESG initiatives Muzinich has committed to or supports as an investor and as a business.

Initiative	Joined	About initiative	Role/ Focus
UN-Supported Principles for Responsible Investment	2010	The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.	Signatory/ investor focused
UK Women in Finance Charter	2018	This is a commitment by the UK Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this Charter are pledging to be the best businesses in the sector. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms.	Signatory/ business focused
LGPS Code of Transparency	2018	The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between investment managers and administering authorities. An investment manager may sign up to the Code in writing in the form agreed by the Board. By doing so the investment manager is demonstrating its commitment to the transparent reporting of LGPS investment costs and fees to administering authorities.	Signatory/ business & investor focused
ICI (Investment Company Institute)	2020	Muzinich is a member of the ICI's ESG Task Force. The ICI represents regulated funds globally. ICI's ESG Task Force is focused on engaging on global policymaking activity around issues related to ESG/sustainable investing including regulations on implementation of responsible investment and ESG disclosures by asset managers.	Member/ investor focused
Climate Action 100+	2020	Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.	Member/ investor focused
Task-force on Climate Related Financial Disclosures (TCFD)	2020	The Task Force on Climate-related Financial Disclosures (TCFD), created by the Financial Stability Board (FSB) provides a disclosure framework for corporations to identify, monitor and manage climate risks to their business. The objective of the TCFD is to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The TCFD recommendations center around climate risk governance, risk management, metrics, and target setting.	Supporter /business & investor focused

PRI Statement on ESG in Credit Risk and Ratings	2020	By signing the ESG in credit risk and ratings statement, credit rating agencies and fixed income investors commit to incorporating ESG into credit ratings and analysis in a systematic and transparent way. To date, the statement is supported by more than 150 investors (with nearly US$30trn in collective AUM) and 19 credit rating agencies (CRAs).	Signatory/ investor focused
PRI Structured Finance Working Group	2020	The broad objectives of the ACSP are to: advise PRI on its program to identify how ESG factors are considered when investors allocate capital to structured products or when these are originated; promote more systematic and transparent incorporation of ESG factors in investment decisions in structured products; oversee the various expert working groups PRI will set up to address ESG consideration in structured products; review and advise on material to be published as part of this PRI program; and support outreach and awareness raising efforts for this PRI program.	Member/ investor focused
Private Sector Voluntary Carbon Markets Taskforce	2020	Tatjana Greil Castro has joined the initiative as a member of the Consultative Group of The Taskforce on Scaling Voluntary Carbon Markets, launched by Mark Carney, UN Special Envoy for Climate Action and Finance Advisor to UK Prime Minister Boris Johnson for COP26, is chaired by Bill Winters, Group Chief Executive, Standard Chartered and sponsored by the Institute of International Finance (IIF) under the leadership of IIF President and CEO, Tim Adams.	Supporter /investor focused

For further details on our approach and formal commitments to sustainability both as an investor, and as a Firm, please visit the Responsible Investment and Corporate Responsibility pages at muzinich.com.

APPENDIX

ESG Policy for Muzinich Article 8 & 9 Financial Products

The criteria set out in this policy apply to all Muzinich financial products classified as Article 8 or Article 9 financial products under the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

Certain Muzinich financial products, in particular those classified as Article 9 financial products, may apply further ESG exclusions, ESG thematic targets or other overlays in addition to the criteria set out below.

This policy complements other aspects of Muzinich's firm-wide sustainable and responsible investment strategy such as the integration of sustainability or ESG risks into our investment process and corporate ESG engagement which are described in this Policy.

The Muzinich financial products (the 'Funds' and each a 'Fund') which will be subject to this policy on or before September 30, 2021 are listed below.

Muzinich Americayield Fund	Muzinich Europeyield Fund
Muzinich Asia Credit Opportunities Fund	Muzinich Global Short Duration Investment Grade Fund
Muzinich Emerging Market Corporate Debt Fund	Muzinich Global Tactical Credit Fund
Muzinich Emerging Market Short Duration Fund	Muzinich LongShortCreditYield Fund
Muzinich Enhanced Yield Short Term Fund	Muzinich ShortDurationHighYield Fund
Muzinich European Credit Alpha Fund	Muzinich Sustainable Credit Fund

Criteria applied to all Muzinich financial products classified as Article 8 or Article 9

- **Controversial Weapons Exclusions:** The investment manager will seek to avoid investments in companies or other entities involved in the production of controversial weapons in accordance with the Muzinich Controversial Weapons Policy . This includes companies directly involved in the manufacture of weapons referred to in the following conventions: Ottawa Treaty on Anti-Personnel Mines (1999), Oslo Convention on Cluster Munitions (2008), Biological Weapons Convention (1975), Chemical Weapons Convention (1997).
- **Tobacco Exclusions:** The investment manager will seek to avoid investments in companies or other entities directly involved in the manufacture of tobacco products, defined as entities which derive more than 10% of their revenues from the manufacture of those products.
- **Mining & Thermal Coal Exclusions:** The investment manager will seek to avoid investments in companies or other entities directly involved in the mining or extraction of thermal coal and/or the production of energy from thermal coal, defined as entities which derive more than 10% of their

annual revenues from such activities. The investment manager may, under certain circumstances, make exceptions for entities which derive between 10% and 30% of revenues from thermal coal which the investment manager deems to have a credible plan and adequate resources to reduce its reliance on thermal coal and to transition to less carbon intensive forms of energy such as renewable energy.

- **Carbon Efficiency Target:** The investment manager will seek to meet certain carbon efficiency targets for relevant portfolios in relation to an index comprising a comparable set of companies. Specifically, the investment manager will seek to construct a portfolio that has a Weighted Average Carbon Intensity (WACI) metric which is at least 10% lower than that of the portfolio's reference index.
- **Norms or Standards-based Exclusions:** The investment manager will avoid investments which the manager deems to have breached, or to be at severe risk of breaching, certain recognised international conventions, norms and/or standards relating to respect for human rights, labour relations, protection from severe environmental harm or incidents, and the avoidance of gross corruption and other business integrity failings, particularly where efforts to engage with the company have not resulted in a material change in practices within a reasonable time span.

Application of Strategy-level ESG Policy

In determining whether a company should be included in, or excluded from a portfolio, the investment manager will assess various considerations beyond the purely financial characteristics of the security or issuer. This includes primary ESG research conducted on the entity, ESG research provided by specialist external ESG data providers and from other external sources such as academic or sell-side broker research.

The investment manager may also take into consideration whether it has recently engaged an entity and has reason to believe it may be likely to improve its management of one or more sustainability risks or other factors relating to the exclusion criteria listed herein – for example, adjusting its energy mix to be less fossil fuel intensive or remediating historic incidents relating to a human rights or labour issue. The investment manager may therefore also consider forward-looking aspects such as an issuer's likely future trajectories on carbon emissions and other important ESG factors. The investment manager will make the ultimate decision on whether to invest, avoid, or divest from a security or issuer.

Determinations on norms- or standards-based criteria will be determined by an internal Muzinich committee. The committee will use a set of internal conduct guidelines to support decision making on individual issuers. Relevant portfolio holdings are periodically reviewed using both internal and external ESG research sources to ensure that relevant Fund(s) have not invested in securities which breach this policy either by investing in new securities or by holding a security which breaches the policy after an investment choice has been made.

Definitions: Sustainable & Responsible Investment Terms

Engagement/stewardship: Interaction led by an investor with (prospective) portfolio companies relating to ESG factors. Engagements are typically undertaken to seek improved corporate ESG disclosures or changes in behavior which are deemed to be in the long-term financial benefit of the company and its stakeholders.

ESG factors: Environmental, social and governance (ESG) factors include those factors which are not typically measured in monetary terms, or included in financial statements, but which are nevertheless important to corporate financial performance and investment outcomes.[20]

ESG integration: The explicit consideration of ESG data alongside commonly considered financial data, with the aim of informing investment research and decision making.

ESG negative screening/exclusion: The explicit exclusion of certain industries, companies or other entities from an investment universe, based on predetermined criteria such as involvement in: production, use or sale of certain products (e.g. controversial weapons), or controversial business practices (e.g. fraud or corruption).

Impact investing: Investments made to intentionally generate positive environmental and/or social impacts – which would not be created in the absence of those investments – without necessarily compromising financial returns.

Positive screening/ESG Best-in-Class: The explicit inclusion of certain industries, companies or other entities in an investment universe based on predetermined criteria, such as the ranking of ESG practices of those entities versus a benchmark; or involvement in certain products, services or behaviors deemed to have a positive environmental and/or social impact (e.g. low-carbon energy production or gender diversity).

Sustainability Risks: Defined in EU Regulation 2019/2088 as: "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment"[21]

Thematic investing: In the context of responsible investing, an investment strategy which targets one or more specific environmental and/or social themes (e.g. low-carbon energy or social housing).

The UN-supported Principles for Responsible Investment

Our responsible investment beliefs are aligned with the six UN-supported Principles for Responsible Investment ("PRI", the "Principles") to which Muzinich has been a signatory since 2010. In signing the Principles, we made the following commitments:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: We will promote acceptance and implementation of the Principles within our industry.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Principle 6: We will each report on our activities and progress towards implementing the Principles.

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[20] Muzinich considers its definition of "ESG factors" to be aligned with the term "Sustainability Risks" as defined by the EU Sustainable Finance Disclosures Regulation.
[21] EU Regulation 2019/2088 is available online: https://eur-lex.europa.eu/eli/reg/2019/2088/oj

Contact

If you would like to discuss any aspects of this Policy, please contact Muzinich's ESG Integration Group at ESG@muzinich.com

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