UK STEWARDSHIP CODE 2020

HAYFIN CAPITAL MANAGEMENT LLP

OCTOBER 2023

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 to 30th April 2023.

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, 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 on the following page.

Over the last year, the Culture Committee has continued its work by rolling out an internal wellbeing initiative across the firm, focused on supporting employees maintain a better work-life balance. Hayfin also launched an intranet platform to enhance the way we internally communicate across the firm, led by the Culture Committee. We continue to deliver a leadership programme to support the development of our staff.

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 how responsibility is an integral part of Hayfin's culture**.** We focus on analysing 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 activities 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. One of our key considerations is engagement. Specifically, we consider the degree to which we are able to engage with our sponsors and/or borrowers, and whether they willing to engage with us.

An ESG framework for investment opportunities

Note: This is a simple illustration of how ESG is considered as part of pre-investment due diligence.

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 wherever possible. 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 Principles for Responsible Investing (PRI) since 2018, 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 2023, set out below, are guided by the PRI, our investors, our internal views, and trends across the industry. Note that some of our goals remain the same as in 2022, as we believe implementing lasting change can take several years of consistent effort to yield results.

We have updated the table below with progress on our goals over the reporting period.

Goal	Current progress
Increasing quantitative ESG data capture across the latest vintage of our Direct Lending Fund, our High-Yield and Syndicated Loans (HYSL) Fund and our Private Equity Solutions Fund.	For direct lending, we are on our second year of issuing an annual ESG questionnaire to our borrowers to improve ESG data coverage. We updated the questionnaire in line with the ESG Integrated Disclosure Project template we helped create, in collaboration with industry groups and other alternative credit managers. We are also considering internally building a reporting tool, to assist borrowers in filling out the questionnaire and allow us to track progress and generate insights. For HYSL, we continue to gather emissions data and assess net zero alignment of issuers. Over the reporting period, we gathered emissions data for circa two-thirds of our issuers. For Private Equity, we continue to annually collect data from the sponsors we work with and have received emissions data for circa 82% of assets, up from 75% last year.
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 for private and liquid credit assets. We have also created an internal Net Zero Roadmap highlighting our short, medium, and long-term plans and some of the issues we currently face in strategic planning for managing climate risk.
Deepening ESG integration and accountability within our strategies.	We established an ESG Governance Committee which is intended to provide clear oversight on the application of the ESG process. The Committee also serves as a dedicated forum for our Portfolio Managers to report on ESG integration and stewardship across funds.
Improving disclosure on ESG and engagement.	Three of our funds have started to disclose under the EU's Sustainable Finance Disclosure Regulation (SFDR) Article 8. We are also working on extending ESG integration tools from our flagship Direct Lending Fund IV to our other private credit funds. We routinely report to investors on wider Hayfin ESG initiatives and progress made within quarterly investor letters. We continue to look for ways to report quantitative metrics to investors from the data we gather.

Our track record and our loss rate are used by our investors to assess our success. However, we do not feel that these statistics are adequate. Hayfin believes success is not just measured by the returns we generate for our clients, but also the impact we have on the world through the companies we finance. Our decision to become a signatory of 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 our responsible investing practices. The results of our latest PRI submission report (2021) shows that we received 88% for Investment and Stewardship Policy, 100% for Fixed Income - Corporate and 99% for Fixed Income - Private Debt. 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. We have received positive feedback on our governance and oversight of ESG integration throughout our investment process, the efficacy of our procedures, controls for analysing ESG risks, and our application and monitoring of ESG factors. While we take pride in hearing about our strengths, we continually make an effort to address areas for improvement by engaging with clients on ESG topics. We continue to enhance our ESG integration process and reporting in light of client conversations. For example, we now provide investors with five fund-level sustainability indicators in our annual Q4 investor letter using ESG data collected throughout the year. 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.

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 C$233 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 ESG best practices.

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 Hayfin's annual Responsible Investment Policy and Exclusions Policy,
- Undertaking Hayfin's inaugural carbon footprint assessment at a corporate level and taking steps to reduce emissions,

- Developing a net zero roadmap to develop an immediate and longer-term strategy relating to managing financed emissions,
- Extending ESG integration tools from our Direct Lending Fund IV to other private credit strategies,
- Continuing our contribution to PRI's Private Debt Advisory Committee,
- Overseeing our inaugural SFDR Article 8 reports for three Hayfin managed funds.

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 Hayfin's Head of ESG who joined Q4 2021.

ESG Committee Members		
Chair of Committee and Head of ESG: Caoimhe Bain (12 years' experience) Secretary of Committee and ESG Analyst: Rahul Desmet (0 years' experience)		
Legal	Partner Solutions	Investment
▪ David Rushford, General Counsel (23 years' experience) ▪ Alex Pickett, Legal Counsel (9 years' experience)	▪ Christian Peters, Director (15 years' experience)	▪ Mirja Lehmler-Brown, Managing Director (25 years' experience) ▪ Andrew McCullagh, Managing Director (33 years' experience) ▪ Mark Bickerstaffe, Managing Director (23 years' experience) ▪ Matthew Supranowicz, Principal (17 years' experience)

ESG Deal Committee

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.

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.
- Maintain 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 sessions 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 investment decision.

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

ESG Governance Committee

Hayfin set up an ESG Governance Committee in early 2023. This committee reports to the Executive Committee (ExCo) and the Audit and Risk Committee (ARC). It is focused on oversight of existing and emerging ESG risks and is a dedicated forum for our portfolio managers to report on the application of ESG tools. Its role is to monitor ESG risk management across the Firm, both at a fund and corporate level, and to provide an objective view on when actions taken by the Firm with respect to ESG may expose the Firm to ESG-related risk.

The ESG Governance Committee is supported by the wider ESG Committee and ESG Deal Committee in overseeing the implementation of risk management processes.

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. This reporting line strengthens ESG oversight and offers more breadth of escalation.

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.

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: 56 professionals

Private Equity: 11 professionals

Liquid Credit: 22 professionals

(Figures as of March 31, 2023)

Training

Every year, we conduct ESG training for investment teams 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 ESG integration process, share best practices, and update on new initiatives. They specifically address the following:

- What ESG is and why we think it is important
- How our investors think about ESG and what their needs are
- The required steps for thorough ESG diligence
- ESG resources and support
- Regulatory requirements and greenwashing risk
- Hayfin's ESG goals

Knowledge development 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 team members is directly linked to pre-determined annual ESG targets being met, as well as progress made towards reaching the ESG Committee's annual goals, as set out in a scorecard at the beginning of each year. For instance, enhanced reporting requirements from regulators and LPs have become an important KPI for the team.

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 the 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 also 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 for 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;
- 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: Cross trades 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 a 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 a 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: Investing in different parts of the capital structure

Over the financial year ending 2023, a conflict arose in relation to investing in different parts of the capital structure of an investee company. Hayfin managed this conflict in accordance with applicable regulatory principles and provisions set out within fund documentation which provided a structured approach. Hayfin also established an Investments Conflicts Committee appointed by Hayfin's Executive Committee and composed of the Chief Executive Officer, Chief Risk Officer, Chief Operating Officer, and the Chief Compliance Officer / General Counsel. These situations are now addressed on a case-by-case basis and must be approved by the Conflicts Committee which ensures conflicts and mitigation measures are managed and recorded appropriately.

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 with approved access to the tree must inform their 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, and if any current conflicts have been resolved and thus no longer need to be recorded in the conflicts register. Conflicts will be additionally 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 employees. Breach of Hayfin's compliance policies and procedures, including 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.

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. Please refer to Principle 10 for more detail on our activity as part of these bodies and relevant subgroups. It is also 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 the asset classes we invest in. 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 emissions 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 for renewable technologies development, solar and wind power generation is expected to grow substantially in the coming decade.
Maritime Services	Increased environmental sustainability ▪ 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 disruptive social risk could rise from product quality, safety regulations, 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 fundamentally disrupting businesses. Digital transformation is happening in every aspect of traditional businesses, from business model to operation formats. It also impacts customer behaviour and supply chains, changing the dynamics of modern retail businesses.
Financial Services	Focus on responsible investing

Selected (ESG-related) disruptive risks for key industries	
Industry	
	▪ Sustainable and responsible investing has 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, including ESG risk.
General Industrials	Increased social and environmental sustainability ▪ The key concerns focus on environmental exposure relating to emissions and pollution, and social exposure relating to safety management. More stringent industry regulation may change some operational patterns in this industry.
Food & Beverage	Access to information ▪ 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

Sources: 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 an entity and fund level in the years ahead. Over the year, we have developed a plan to start disclosing against TCFD and will produce our first firm-level TCFD report in Q2 2024.

Hayfin believes that climate change has the potential to affect our investments. As such, we consider it whenever we believe it presents a material risk or 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 ESG Deal Committee and Investment Committee.

We directly embed climate change risk analysis in our investment process with the following tools:

- Firmwide exclusions list: Explicitly excludes investments in controversial weapons, tobacco production, thermal coal mining or sale, and oil sands extraction, sale, or pipeline involvement.
- 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: Used to encourage climate risk awareness, disclosure, and management, where possible.
- ESG annual borrower questionnaire: Explicitly seeks disclosure of emissions and commitment to reduction strategies.

We also monitor the extent to which portfolio companies across our 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.

Case study: Greenheart, Njord, and Marsoft enter green tech partnership underpinned by carbon credits

Hayfin recognise that collaboration at an industry level to address systemic risk is of paramount importance. Over the reporting period, Greenheart, a subsidiary of Hayfin Capital Management, announced they would be partnering with green technology business, Njord, and maritime consulting firm, Marsoft. As part of the partnership, Njord will design a bespoke package of fuel-saving technologies on, initially, four Greenheart-owned vessels, to achieve fuel and emission cuts of between 7% and 16% per vessel. Marsoft will quantify and certify the CO_2 savings through carbon credits, ensuring Greenheart will optimise the financial value of the fuel savings. Greenheart expect the partnership to make a strong business case for installing energy-saving devices on Hayfin-owned vessels.

In other strategies such as private credit, Hayfin seeks to include ESG KPIs within loan documentation, where possible, to address systemic risks such as climate or supply chain management. Several case studies are set out below.

Case study: integration of ESG KPIs linked to climate change, waste management, and health and safety

An opportunity arose within the investment process to include an ESG margin ratchet for one of our primary direct lending deals. Our ESG Deal Committee identified a number of material ESG risks during the credit due diligence phase. From this we set preliminary KPIs to improve on over the life of the loan, one being improvement of water efficiency given the nature of the business was water intensive. We discussed these with the sustainability officer of the company who confirmed that a significant amount of progress had been made regarding water efficiency and that an alternative area where more meaningful change could be made was increasing the use of renewable energy. After this conversation we reformulated KPIs to those stated below. Each KPI has an associated trigger test in the loan documentation which reduces margin if tests are met over a defined period.

- *Climate risk: Sustainable energy as a percentage of total energy consumed targeting 100% by financial year 2027 at group level and to remain at 100% where this is already the case.*
- *Waste management: Kilogram of waste per 100,000 products sold, where waste is defined as that which cannot be recycled over a specific period of time. The associated target is to reduce this by 8% year-on-year with declining targets for each production facility.*
- *Health and safety: Lost time accident frequency rate, where accidents are defined as number of work-related accidents which lead to at least one day of absenteeism over a defined period. The associated target is to reduce this by 5% year-on-year with declining targets for each production facility.*

Case study: integration of ESG KPIs linked to climate, health and safety, employee turnover, and environmental supply chain management

Hayfin was presented with an opportunity to invest in a business services company. We were able to introduce ESG margin ratchets to drive progress relating to the company's climate impact, health and safety, employee turnover, and environmental risk arising within the supply chain of the business. The following KPIs were set at a Group level:

- *To reduce electricity consumption by 2% annually.*

- *To replace corporate personal cars by new hybrid vehicles at an increasing rate through the life of the loan.*
- *To reduce the number of workplace-related accidents resulting in sick leave in a financial year over the life of the loan.*
- *To manage the employee turnover rate to be less than a minimum standard in any financial year.*
- *To increase the proportion of the Group's suppliers having signed "Environmental, Social and Governance" charters, thereby managing environmental supply chain risk.*

Margin benefits are to be achieved if 2 or more KPIs are met annually with an ESG Certificate required upon disclosure of the above.

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 the increasing demand for credible ESG data to facilitate our ESG investing approach. We also recognise 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.

Firmwide 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. To reach these goals, we have set a series of initiatives that will be ongoing in the years ahead:

1. Hayfin established a D&I Committee in 2020 to further initiatives that promote cognitive and demographic diversity at the firm. In December 2022, the Committee launched a bi-annual confidential staff survey on staff experiences and views relating to diversity at Hayfin. Results of the survey are used to monitor the impact of D&I policies over the long term and to drive improvements based on feedback. The Committee has also instituted a formal talent acquisition policy that requires the initial pool of candidates for a role to consist of at least 50% diverse profiles. The D&I Committee reports to the firm's Board and Executive Committee with regular updates of progress on all D&I initiatives against an annual scorecard.
2. Throughout 2022 Hayfin built on its relationship with Sponsors for Educational Opportunity (SEO), a London-based charity delivering education, training, and mentoring support to young people from underrepresented and underserved backgrounds. Hayfin continued its summer internship programme in partnership with SEO, which focuses on attracting diverse candidates. Thirteen interns were placed across our London and New York offices in 2022 across departments. Additionally, Hayfin partnered with SEO on their Alternative Investments Programme by interviewing candidates and sponsoring the 2022 SEO Alternative Investments Conference.
3. Hayfin's Global Women's Initiative ("GWI"), led by Gina Germano (Portfolio Manager and Head of European High-Yield & Syndicated Loans) launched in May 2022 and has hosted several internal events since. 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 their career objectives, as well as support the attraction and retention of female candidates. Over the year, the GWI conducted interviews with

a wide range of female leaders internally and externally to gather feedback on key challenges Hayfin, and the industry as a whole, faces with the attraction and retention of female talent. The intention is for this to inform practical steps the firm can take with the support of Hayfin's Executive Committee. In March 2023, Hayfin's GWI collaborated with Women Returners and the Diversity Project to launch a "returnship" programme for candidates that have been out of the workforce for some time. Although not limited to female candidates, the programme has a focus on female candidates looking to rejoin the workforce after taking time out for childcare purposes.

These initiatives and any 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 that of applying consistent methods to gather ESG data from borrowers. This is further expanded 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 firmwide 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. Application of our responsible investment policy is the responsibility of the ESG Committee.

The ESG Deal Committee conducts ESG training for employees annually with the ESG Committee overseeing the completion of Hayfin's PRI reporting. The ESG Committee also discusses how the firm can improve to become best-in-class in ESG integration 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 risk-related procedures, policies, and controls, and assessing their effectiveness. The Audit & Risk Committee meets quarterly (and more frequently as required) to monitor consistency in the application of Hayfin's risk management framework. The Committee is chaired by an independent, non-executive board member. Other members include Hayfin's Chief Operating Officer (COO), General Counsel, Chief Financial Officer, COO Private Debt, COO Liquid Debt, one non-executive director, 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. This reporting line strengthens ESG oversight and offers more breadth for escalation. Our newly established ESG Governance Committee was set up at the beginning of 2023 to create distinction between oversight and implementation of ESG processes. This is a forum for the Portfolio Managers to report on the application of ESG procedures across their respective strategies.

In 2021, Hayfin made additional enhancements to the ESG investment process. Specifically, the Head of ESG now reports directly to Hayfin's Executive Committee periodically throughout the year. Moreover, we have expanded how we conduct ESG investment diligence through a set of enhanced ESG tools including ESG deal scoring, use of ESG KPIs within deal documentation where possible, ESG sponsor scoring and enhanced engagement with sponsors, and issuing an annual ESG borrower due diligence questionnaire to improve ESG data coverage across funds. Lastly, we have 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 appropriate level of accountability and control systems. As part of Hayfin's 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 also has an ESG Deal Committee that meets with analysts to discuss the ESG risk of investments before they go to Hayfin's Investment Committee for approval. The ESG Deal Committee includes members of our investment, legal, ESG, 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 further ESG due diligence is required, the ESG Deal Committee addresses this with the relevant deal team.

External review and oversight of policies, processes, and activities

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 Hayfin's responsible investment processes. The results of this review are reported back to Hayfin and shared with investors.

Our responsible investment policies and processes are subject to external benchmarking through the PRI's annual assessment process. Additionally, we are supported by our external legal advisors on our ESG integration and stewardship policies and processes. Our legal advisors also conduct training sessions on upcoming regulatory changes and share ongoing conversations regarding 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 our ESG processes, 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, existing investors, and investment consultants who act as informal third-party reviewers, providing valuable feedback and criticism which we factor into our processes where possible.

On an annual basis, we review our main ESG integration processes to ensure we are taking a proportionate but ambitious approach to ESG integration across our funds. For example, at the beginning of 2023, the Private Equity team and Head of ESG reviewed Hayfin's approach to ESG private equity sponsor due diligence in advance of undertaking our 2023 sponsor engagements. Recognising that climate change, and particularly our sponsors' approach to net zero, was of importance to Hayfin for 2023, we enhanced our ESG sponsor due diligence questionnaire to account for this and made it a focus during conversations with sponsors.

Hayfin ensures that its stewardship reporting is fair, balanced, and intelligible 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 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 annual PRI reporting summarising our responsible investment accomplishments for the year. We believe that transparency is key and, as such, we publicly disclose our UK Stewardship Code 2020 report on our website (www.hayfin.com/esg) and share our PRI report and assessment with 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 invest in. We do not normally have voting rights and therefore we do not have a voting policy in place.

Example: Refinement of our processes through external engagement

Over the reporting period, we engaged with a range of different data providers to assess their climate data solutions for private debt. While solutions for private debt markets are developing, this appears to be at a relatively slow pace. We evaluated the validity of the offerings of nine ESG data providers by undertaking a back testing exercise. Four of the data providers we reached out to had climate data offerings for private markets. We tested their methodology by comparing emissions estimates provided to us by the data providers against emissions measured and disclosed to us by our borrowers.

The ESG Committee, following a review of our back testing outcomes, concluded that current proxy methodologies yield results that inaccurately represent our carbon exposure at a fund-level, and therefore could represent inaccuracies in disclosures if they were used.

We fed the discrepancies back to the data providers we worked with, seeking to help refine their methodologies. We continue to survey the market for newly developing solutions and are in ongoing dialogue with a number of data providers to understand if alternative methods could be applied.

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 continue to engage regularly with a major retail and commercial bank in the United Kingdom on their ESG integration practices and their management of climate risk. We work with this bank through our fund financing and identified they had been reporting on climate risks and opportunities for a few years, ahead of the rest of the market. We have ongoing conversations, through which we better understand common challenges when reporting on climate and how to navigate these in the future. Over the year, we engaged with them on how we could, in the future, embed ESG KPIs within our financing arrangements. While this has not yet been established, we continue to investigate how this could work in practice.

Principle 6: Client and beneficiary needs

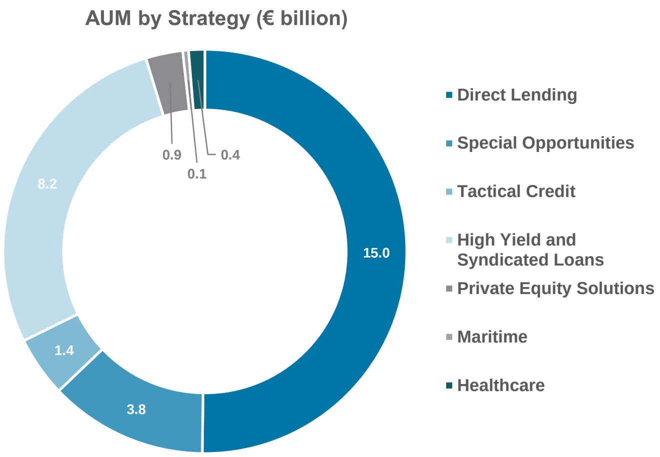
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Hayfin is one of Europe's leading private credit alternative asset managers with c.€30 billion in assets under management as of 31 March 2023. Hayfin is headquartered in London, with ten additional offices globally including in Frankfurt, Luxembourg, Madrid, Milan, Paris, New York, Tokyo, and Singapore. The Hayfin team comprises 204 employees including 85 investment professionals, specialised in sourcing, structuring, and managing credit investments. Since its inception in 2009, Hayfin has extended loans totalling c. €34 billion firmwide to 473 companies predominantly in Europe.

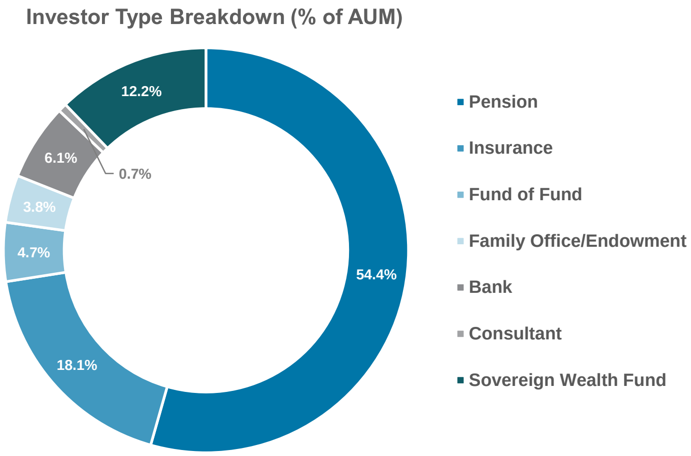
Hayfin manages four core, complementary and cohesive credit investment strategies: Direct Lending, Special Opportunities, Tactical Solutions, and High Yield and Syndicated Loans. In its private credit strategies, Direct

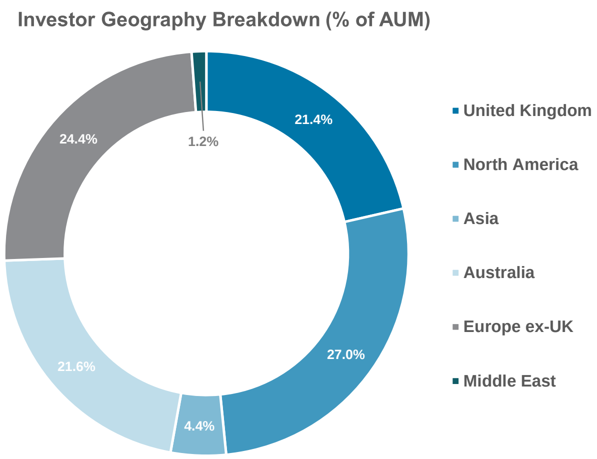
Lending and Special Opportunities, Hayfin focuses on generally less liquid, “off-the-run” investment opportunities where there is less competition to provide capital and does not rely on relationships with investment banks for allocations of broadly syndicated leveraged loan and high yield investment 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:



Due to the nature of the private credit asset class, all of our investors are institutional. A breakdown of our investors by type and geography 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 because of our historical experience within our strategies, time to investment realisations, and because we believe they are the most appropriate to achieve the target returns for each strategy. This timeline also aligns with the objectives of each strategy, such as generating consistent senior secured cashflows in Direct Lending or unlocking value in complex situations for Special Opportunities.

Furthermore, our funds allow for two one-year extensions to ensure our investors receive the most appropriate value for the invested assets, with an orderly exit process for those investments that remain unrealised. In doing so, Hayfin is able to avoid forced liquidations that are not in the best interest of our borrowers and our investors.

With regards to our reporting, Hayfin's Investor Relations and Investment teams produce the following quarterly reports for each fund and Separately Managed Account (SMA):

- 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 commentary on the Fund's new positions and realisations over the quarter, together with any relevant updates at Firm level.
- Audited Financials: The Fund is audited annually as of 31 December, with audited financials made available within 90 days after year end.

Finally, all 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 meets bi-annually to review the fund's performance, potential conflicts of interests, and fund expenses.

Amendments to the fund's Limited Partnership agreement 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 focus on analysing 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 needs. A recurring theme of such discussions has been clients' desire to allocate capital towards businesses that enable a more sustainable economy.

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

Case study: Using investor expectations to enhance climate change risk management

An existing investor communicated their need for the asset managers they allocate capital to in the future to make a net zero commitment covering financed emissions. We discussed their needs in detail over a series of phone calls and looked at ways in which we could meet their needs. The outcome was:

- *We undertook analysis on climate data coverage across our funds and considered ways in which we could bridge data gaps to measure our financed emissions, particularly across private credit.*
- *We evaluated the use of a third-party data provider to assist with climate data gaps in reporting (see example within Principle 5).*
- *The ESG Committee assessed the output of the above analysis and considered what it would entail to make a net zero commitment across financed emissions.*
- *The Head of ESG spoke with the private credit contact at the Net Zero Asset Managers initiative to further understand what a commitment to such an initiative would involve and feedback challenges specific to the private debt industry.*

The above assisted Hayfin in understanding what immediate steps could be taken. The Head of ESG, with input from the ESG Committee, developed a Net Zero Roadmap setting out short, medium, and long-term aspirations of Hayfin with respect to net zero and articulated the immediate steps Hayfin would take in the coming 12 months. Immediate next steps include continued conversations with our investors and reporting on the progress made against our roadmap.

Case study: Using investor expectations on disclosure to enhance ESG data gathered and reported to LPs

Over the course of the year, we received a number of requests from our investors to report on the European Commission's Principle Adverse Impact Indicators (PAIs), particularly in relation to the underlying investments within the latest vintage of our Direct Lending Fund. These metrics were already partially requested from our borrowers through our annual ESG borrower questionnaire. We revised our questionnaire to include all PAIs in an effort to gather more comprehensive data from our borrowers, and also to raise awareness amongst our borrower base of the importance of measuring and reporting on wider biodiversity metrics that they may be less familiar with. The template was issued following 30 April 2023. We intend to use the data gathered to better meet our LPs' disclosure requirements.

The above examples show that working with our investors and listening to their views can result in enhancements to our processes that 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 of each investment memo and the points raised in ESG Deal Committee discussions.

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 the Firm and its employees abide by. 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 engaging in 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 degree to which ESG is considered depends on the strategy and level of influence Hayfin can exercise for a given strategy, described below.

Integration of ESG and stewardship in private credit strategies

Business Selection

ESG integration begins at the 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 they are discussed further 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 past business selection, our investment teams use a combination of internal views on ESG risks and the SASB industry database to guide their ESG analysis. They may also commission third-party research and seek appropriate ESG disclosures from sponsors, management, and other relevant stakeholders.

The investment team writes up a detailed ESG memo outlining all key ESG risks and mitigants, and concludes whether these risks are being managed appropriately. This analysis is then submitted to the ESG Deal Committee for review and discussion with the relevant investment analysts 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), 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 before approving investments.

The below industry database of ESG considerations is derived from SASB and focuses on sectors we have highest exposure to. This is used by our ESG Deal Committee and investment teams when considering ESG risks for a deal. We continually enhance our ESG analysis by taking forward learnings from previous deals we have considered.

Industry Database of ESG Issues			
Industry	**Environmental**	**Social**	**Governance**
Retail/ Services	▪ Product recall, consumer education, and initiatives aimed at meeting applicable regulations and industry standards ▪ Safe and proper disposal/ recycling of materials ▪ Sustainable supply chain management throughout the production cycle	▪ Labour code of conduct to ensure proper working conditions, labour practices, and safety requirements ▪ Ethical standards to ensure consumer rights and protections	▪ Transparency in business operations and production processes
Healthcare	▪ Energy efficiency in operations ▪ Sustainable supply chain and product management ▪ 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/services in developing countries ▪ Ensuring diversity of trial participants and medical practitioners ▪ Pricing transparency and fairness to patients ▪ Reasonable price increases and fair pricing in different regions ▪ Protection of customer/patient health 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 and bribery, and other unethical business practices
General Industrials	▪ Managing environmental impacts associated with project design, siting, and construction processes ▪ Managing biodiversity impacts including air emissions, water discharge, waste management, natural resource consumption, soil erosion, and hazardous chemical usage ▪ Appropriate disposal of hazardous substances, pollutants, and contaminants ▪ Development of products with energy-conserving designs and efficient resource utilisation ▪ Focus on decarbonisation, climate and transition risk, and emissions reduction in long-term planning ▪ Disclosure of energy efficiency and water efficiency performance improvements	▪ Company commitment to workforce safety matters including implementation of safety protocols, safety training, and maintaining a safe work environment ▪ Compliance with applicable regulations ▪ Efforts to minimise worker exposure to harmful substances	▪ Management and control to prevent corruption and bribery throughout the value chain ▪ Code of conduct related to conflict of interest, corruption and bribery, and other unethical business practices ▪ Transparency in business operations and production processes ▪ Adequate disclosure of risk, suitability, investment alternatives, and conflicts of interest to clients
TMT	▪ Energy efficiency and renewable energy usage, particularly for energy intensive sectors (e.g., data centres) ▪ Appropriate waste management and disposal practices, particularly for hardware-intensive businesses ▪ Ensuring the ethical sourcing of metals and other required inputs, particularly for hardware-intensive businesses	▪ Management practices and guidelines on use of customer data ▪ Managing the 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	▪ Appropriate cybersecurity and privacy protocols to ensure consumer and client protections

Industry Database of ESG Issues			
Industry	**Environmental**	**Social**	**Governance**
	▪ Development of products with energy-conserving designs and efficient resource usage	companies is unreliable and prone to business continuity risks ▪ Implementation of diversity and inclusion policies, including initiatives to recruit from and develop diverse talent pools ▪ Ensuring safe working conditions and worker protections	
Household and Personal Products	▪ Product recall, consumer education, and initiatives aimed at meeting applicable regulations and industry standards ▪ Safe and proper disposal/ recycling of materials and packaging ▪ Sustainable supply chain management throughout the production cycle	▪ Labour code of conduct to ensure proper working conditions, labour practices, and safety requirements ▪ Ethical standards to ensure consumer rights and protections	▪ Transparency in business operations and production processes
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 assets ▪ Tenant oversight for sustainability ▪ Climate risk and adaptation considerations for new developments	▪ Improve housing access, particularly in underserved communities ▪ Company commitment to workforce safety including implementation of safety protocol, safety training, and maintaining a safe work environment ▪ Ensuring safe construction of new developments, with considerations for the long-term ▪ Compliance with applicable regulations and planning controls	▪ Internal transparency around business operations and maintaining a high standard of ethics ▪ Employee training, oversight, policies, and procedures to build client trust and loyalty ▪ Management and control to prevent corruption and bribery throughout the value chain ▪ Paying workers a fair and equitable wage
Retail/ Services	▪ Product recall, consumer education, and initiatives aimed at meeting applicable regulations and industry standards ▪ Safe and proper disposal/ recycling of materials ▪ Sustainable supply chain management throughout the production cycle	▪ Labour code of conduct to ensure proper working conditions, labour practices, and safety requirements ▪ Ethical standards to ensure consumer rights and protections	▪ Transparency in business operations and production processes
Business Services	▪ Prioritising sustainable principles in business service provision ▪ Optimising operations for energy efficiency and sustainability	▪ Fostering professional integrity and providing adequate training and support to employees ▪ Implementation of diversity and inclusion policies, including initiatives to recruit from and develop diverse talent pools ▪ Workforce initiatives to garner knowledge, talent, advice, and a variety of technical skills ▪ Ethical business practices that do not have adverse effects on society	▪ Fair employee treatment and equitable pay policies ▪ Ensuring customer data security and mitigation of threats including cybersecurity breaches, malicious activities, and employee negligence ▪ Internal transparency around business operations and maintaining a high standard of ethics
Maritime Services	▪ Compliance with industry regulations on greenhouse gas emissions ▪ Adoption of renewable energy or cleaner-burning fuels and use of fuel-efficient ship engines ▪ Reduction of shipping duration in marine protected areas ▪ Sustainable retrofits such as ballast water treatment systems and silicone paint ▪ Management to reduce risk of spills or releases of hydrocarbons and/or hazardous substances	▪ Implementing a safe working environment and emergency management procedures in the event of ship casualties, vessel accidents, worker injuries, and hazardous substance release incidents ▪ Proper employee training programmes and periodic dry-docking maintenance periods to ensure employees' safety, health, and welfare ▪ Managing the dislocation and disruption of the energy transition	▪ Appropriate governance structures and practices to avoid company exposure to corruption and bribery, including wilful or unintentional payments or exertion of unfair influence

Source: Sustainable Accounting Standards Board (SASB), Hayfin

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

- Use of ESG margin ratchets where possible within primary private credit deals, which help us encourage and drive improvements and disclosure on ESG issues among our borrowers.
- Our ESG borrower questionnaire is issued annually to borrowers to increase ESG data coverage across our funds, where possible, enabling us to report on key ESG metrics to investors and monitor ESG trends at portfolio level.
- Our proprietary ESG sponsor scoring methodology, which involves conducting ESG due diligence on the sponsors backing deals within our private credit funds and sponsors whose funds we invest in as part of our private equity business. Further detail is set out in the private equity section below.
- Our proprietary ESG deal scoring methodology, which is applied across all private and liquid credit deals. This tool assists us in assessing the level of ESG risk of individual borrowers and the industries they operate in within our funds and provides a means for monitoring risk over time.

Considerations	ESG Deal Score	Description
Investability of deal	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)
Sector specific ESG risks	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/borrower specific ESG risks	1	No material ESG issues. Low level of ESG risk within industry and strong issuer ESG score.

The fourth vintage of our Direct Lending Fund reports against 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 aims to demonstrate progress year-on-year.

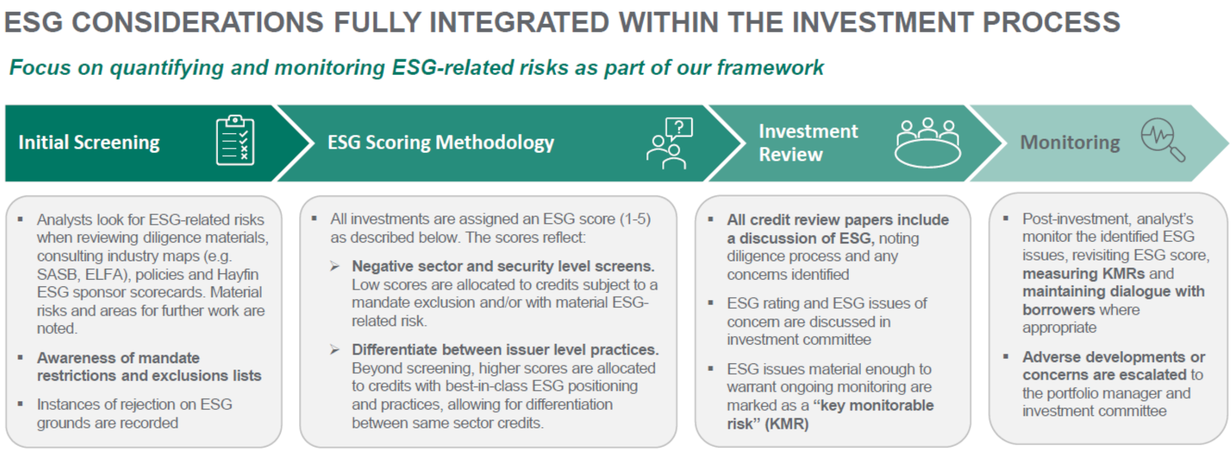
Portfolio monitoring and exit

Where material ESG matters have been identified, the investment analyst responsible engages with sponsors and/or management on an ongoing basis to monitor these issues. Our investment teams will also selectively engage with third-party providers to dig into certain aspects of ESG diligence, if deemed necessary. Material ESG developments are included in the commentary for the monthly portfolio reviews 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.

Integration of ESG and stewardship in liquid credit strategies

In contrast to private credit where we are typically a majority lender, we are often a minority participant within our liquid credit strategy. For such investments, our ability to engage with borrowers is more limited. Nevertheless, 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, and therefore, the liquid credit analysts are also able to utilise our internal sponsor due diligence tools.

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



The High Yield and Syndicated Loan Fund discloses in accordance with 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 also report on the greenhouse gas emissions and net zero alignment of issuers across the fund, and the ESG deal scores, using our proprietary scoring tools.

Integration of ESG and stewardship in private equity strategies

Pre-Investment / Due Diligence Phase

Hayfin Private Equity incorporates ESG-related matters into its investment 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, whether fund or asset, Hayfin Private Equity has developed an ESG assessment framework (Sponsor ESG Questionnaire and Sponsor ESG Scorecard) to measure (Sponsor ESG Score) and evaluate Private Equity managers' commitment to ESG. The result of each assessment is documented in Hayfin's Private Equity investment documentation and discussed at the Investment Committee meeting.

The Sponsor ESG Questionnaire is sent to each General Partner ("GP") as part of due diligence by the investment team. The questionnaire must be filled-in by the GP before the Investment Committee's preliminary or final investment recommendation meeting, so that the investment team can present ESG analysis and the 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) a breakdown of the final Sponsor ESG Score; ii) benchmarking against other GPs in the portfolio; and iii) a 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 responsible investing.

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

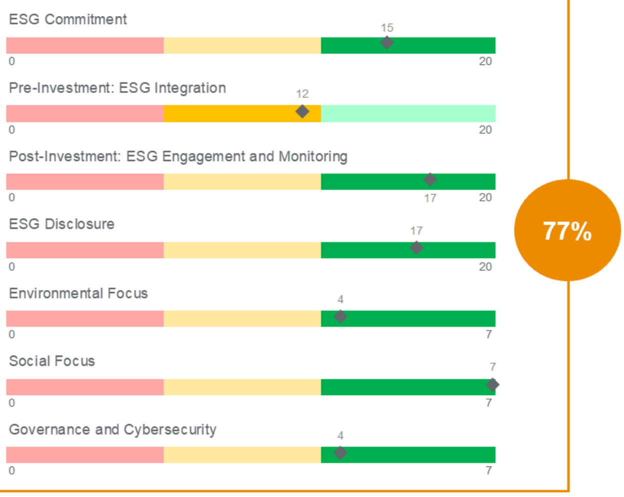
SPONSOR ESG SCORECARD
AUGUST 2023

Fund	**Leading PE sponsor**
Global ESG Score	**77**
ESG Risk	**Low**
ESG level	**Level 2**
ESG controversies	**No**

Benchmark 2023

Portfolio average	**TBC**
Best score	TBC
Lower score	TBC

Breakdown of the final ESG score



Strengths & Areas of improvements

+++
- Social focus

++
- ESG Commitment → i) no cyber insurance
- ESG Disclosure
- ESG Engagement and Monitoring → i) ESG KPIs are not externally audited;
- Governance and Cybersecurity → i) no insurance policy against cyber criminality for portfolio companies
- Environmental focus → i) no standalone climate policy; ii) No carbon footprint calculation at portfolio level but monitors carbon emissions

\-
- Pre-Investment: ESG Integration → i) do not always do 3rd party external ESG due diligence on assets pre-investment

At the time of reporting, we have begun our 2023 ESG engagements with sponsors and have noted improvements in processes across a number of the sponsors we have significant exposure to, particularly on disclosure and climate risk management. We do not have the output of the year-on-year comparison for all sponsors to report on as at this point.

Asset ESG Due Diligence

For all 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) environmental factors; ii) social factors; and iii) governance factors (with an emphasis on cybersecurity).

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

If conflicts with our Responsible Investment 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 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 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 updating the Sponsor ESG Scorecard once GPs return the questionnaire. The deal team is also responsible for engaging with the GP to address any potential ESG risks and to promote continuous improvement in the Sponsor's ESG engagement efforts.

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 ESG data 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 the 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, the Private Equity team selects an annual theme to engage with all its invested GPs (e.g., climate risk has been selected as a theme for engagement in 2023), to raise awareness on a particular topic the Hayfin Private Equity team deems important.

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.

Below we set out an example of how ESG issues have directly impact acquisition across our funds.

Private Credit: Example of ESG issues impacting acquisition	
Background	A US-based drug discovery contract research organisation ("CRO") and contract development and manufacturing organisation ("CDMO") that focuses on cell and gene therapy.
ESG issue	Animal rights concerns: during the initial stages of due diligence, it was discovered that the company derived a portion of revenue from a line of business which relied on animal testing models for its pre-clinical and product discovery work.
ESG analysis	We escalated full ESG due diligence within the investment process, with the investment team discussing the deal with the ESG Deal Committee in advance of the posting IC. The investment team undertook several diligence calls with the founder and management of the company to understand details around revenue exposure and animal testing practices. We reviewed the company's diligence materials, checking the company website and carrying out desktop search on news items regarding the company's animal welfare behaviour.
Outcome	Although the company had been operating in line with industry standards for animal testing practices, several events had been flagged by animal rights activists during the company's short operating history which raised concerns over governance standards and ethical practices. The conclusion was to reject the deal at an early stage following the additional ESG research conducted.

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, cybersecurity 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 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, members of Hayfin's Finance and Operations teams perform onsite visits on at least an annual basis. Hayfin also receives copies of these counterparties' Internal Controls Reports such as International Standard on Assurance Engagements ('ISAE') 3402, their disaster recovery and business continuity plan, and cybersecurity policies.

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

We also engage directly with stakeholders, for example our borrowers or companies where we are a majority shareholder, on their corporate sustainability initiatives, including how they are progressing on diversity initiatives, climate reporting, and emissions reduction strategies.

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 ESG metrics. In areas where sponsors are identified as being laggards, the Investment team and/or Head of ESG directly engages through a physical meeting or video conference call to communicate scope for improvement.

Example: Engagement with Private Equity sponsors we work with

Following our sponsor ESG due diligence process described in Principle 7, we engaged with several of the sponsors we have exposure to on both the private equity and private credit side of our business during the reporting period. One sponsor, who owns a company we have lent to, had not yet fully established an ESG process and was interested in understanding what best practice steps they could take. We fed back the output of their ESG scorecard which we used to assess their capabilities, highlighting areas the sponsor had yet to develop, and sharing best practices followed by sponsors who have a long-established ESG strategy. The sponsor was particularly interested in understanding how to measure and report on climate risk. We suggested resources they could consider including the Sustainable Accounting Standards Board ('SASB') for useful metrics to measure ESG risk, the Institutional Investors' Group on Climate Change's ('IIGCC') Net Zero guidance and the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations on reporting. The outcome of this engagement was greater clarity provided to the sponsor on how to approach the management of climate risk across one of our invested assets. We will continue to monitor the progress of their ESG strategy going forward.

As discussed in Principle 5 (‘Example: Refinement of our processes through external engagement’), over the year we worked with a range of different data providers to assess the accuracy of using climate emissions estimates from the borrowers that we lend to within our Direct Lending Fund. This exercise involved holding potential third parties accountable for their proposed services through undertaking back-testing of the results proposed, through extensive dialogue over a period of two to three months. When a solution was unsatisfactory, we had follow up phone calls with the providers to discuss alternative methodologies which we believed could better assess estimated emissions. These included altering model inputs to change the method of assessing the size of the borrower. These engagements resulted in Hayfin providing feedback on the modelling outputs and the data providers refining their processes and understanding the challenges of estimating Scope 1, 2 and 3 greenhouse gas emissions.

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 funds structure. As part of their process, the team engages with private equity sponsors to understand their ESG philosophy, policies, 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 update 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 2022, we received responses from most private equity portfolio companies to whom we sent the survey.

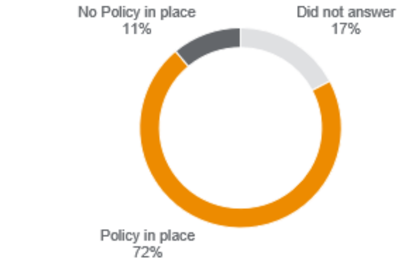
- Compared to our 2021 KPIs questionnaire, we have increased the scope of the questionnaire with additional KPIs on environmental metrics (incl. more details on our portfolio carbon footprint, intentions for net zero etc.)
- Compared to 2021, the aggregated results of the survey show improvements in some key KPIs:
    - *Environmental*: 72% of portfolio companies have an environmental policy in place (vs. 64% in 2021).
    - *Social:* on average there are 43% female FTEs in portfolio companies (vs. 38% in 2021) with 17% of females being in Board positions (vs. 11% in 2021); 82% offer a profit-sharing scheme (vs. 71% in 2021); 100% offer continuous training (vs 91% in 2021); and 91% discuss Health and Safety Issues at Board meetings (vs. 45% in 2021).
    - *Governance*: Improvements in the management of fraud, bribery, corruption, money laundering / facilitation of tax evasion relative to 2021; improvements in the implementation of data protection policy breaches that triggered an immediate incident response relative to 2021.

HAYFIN

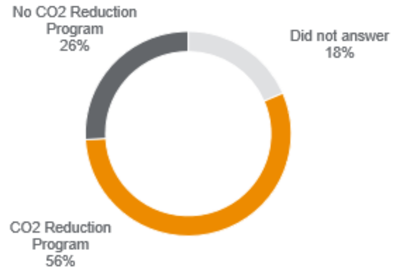
Private Equity Funds Portfolio Monitoring

Environmental

Sustainability or ESG policy (e.g. environmental, EH&S)



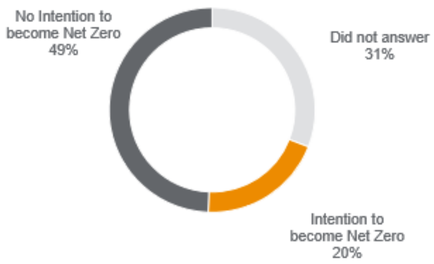
CO2 Reduction Program



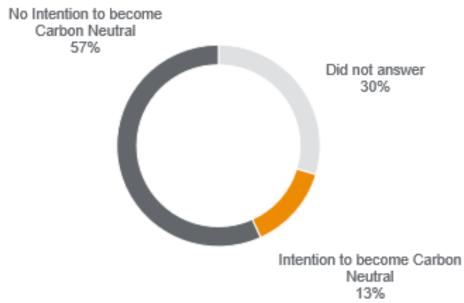
Environmental Incidents

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

Intention to become Net Zero

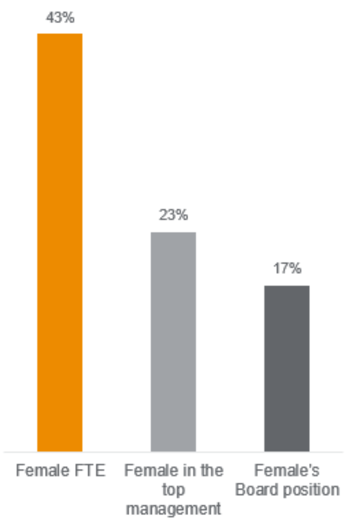


Intention to become Carbon Neutral

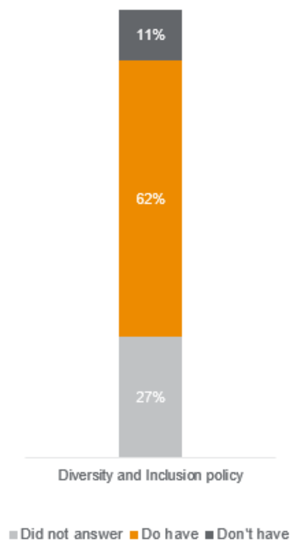


Social

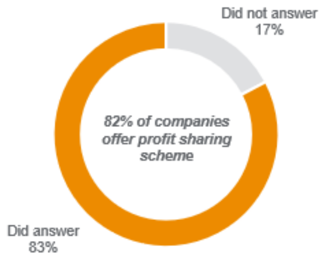
Female Employment
Proportion of Female FTEs, Female in Top Management Positions and Female's Board positions



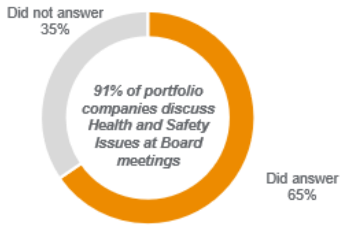
DEI Policies
Diversity, Equity and Inclusion Policy



Employees Remuneration
Employees with profit sharing schemes

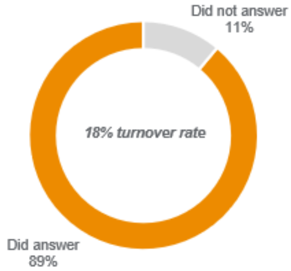


Health and Safety Issues
Discussed at Board meeting

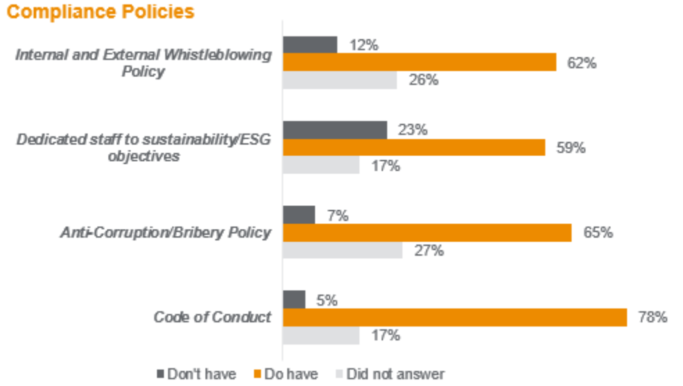


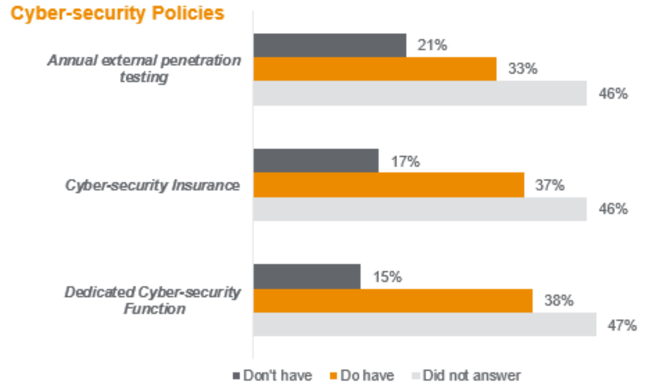
Training
Employees who received continuous training

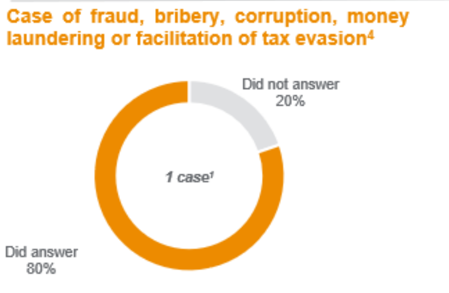
Turnover
Turnover rate observed

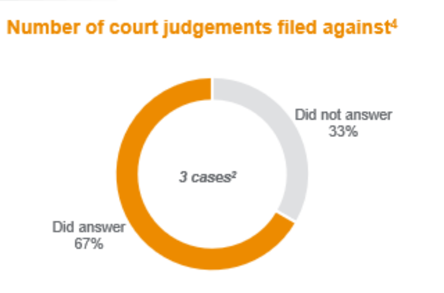


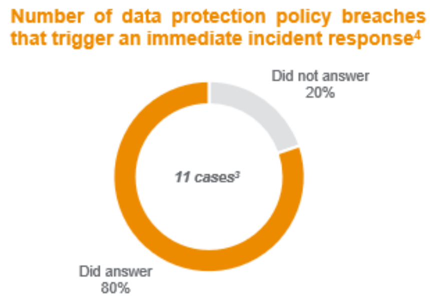
Governance











Private Credit

Many of the sponsors we have a relationship with on the Private Equity 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, and/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 where possible (e.g., through the use of with ESG margin ratchets based on 3-5 set KPIs). Governance is a key issue for non-sponsored investments. Where possible, we actively engage with management teams to understand their organisational structure and culture, and 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 risks for each investment before they go before Hayfin's Investment Committee for final approval. The ESG Deal Committee encourages 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	
Topic	**Engagement Content and Outcomes**
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. ▪ Based on discussions with several LPs, we decided to include questions on PAIs in our ESG borrower questionnaire.
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. ▪ During the reporting period, we had calls with several of the PE sponsors we work with to provide them with feedback from our ESG sponsor scoring. We plan to have more calls with sponsors over the course of the year.
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. ▪ During the year, Hayfin also continued its engagement with the Global Maritime Forum's Getting to Zero Coalition. The Coalition is committed to getting commercially viable deep sea zero emission vessels powered by zero emission fuels into operation by 2030 and to move to full decarbonisation by 2050.

Where Hayfin is the majority shareholder of an asset

Occasionally Hayfin becomes the majority owner of companies that it lends to. In such circumstances, Hayfin has a greater ability to engage to improve the sustainability profile of a company. An example of this is set out below.

Example: Company where Hayfin are the majority owner

Hayfin became the majority shareholder of a company that Hayfin lent to several years ago. Over the reporting period, the company was in the process of developing an ESG strategy and presented this to the company Board which Hayfin sits on. Following this, Hayfin's ESG team engaged directly with the Corporate Finance Director and Chief Information Security Officer to discuss the company's ESG strategy to date. Topics discussed include:

- *ways in which the company could achieve carbon neutrality,*
- *validity of carbon offsets and what types of carbon offsets are available,*
- *ways to improve diversity which the company found particularly challenging and,*
- *employee training to engage the workforce on sustainability issues, particularly climate change.*

We also shared example reports which the company could use to begin disclosing on their ESG strategy over time.

The engagement was ongoing as at the date of the reporting period.

Engagement for cross-learning benefits

We understand the benefits of engaging for the purpose of cross-sharing knowledge. As such, Hayfin engages where relevant with key stakeholders, such as the private equity sponsors we have a relationship with, to develop knowledge on how to best address ESG risks across portfolio companies. One example of this was in relation to a technology company we are the majority owner of. We set up a call with the ESG & Sustainability Director at one of the private equity firms we work with who have a focus on the technology sector. During this call we developed a better understanding of how to address the following topics:

Environmental

- Energy management and climate change policies
- Circular economy and waste management of IT equipment

Social

- Talent management and onboarding processes
- Culture and values engagement with employees
- Diversity management

Governance

- Accountability of ESG risks within a company
- Value chain management

The result of this engagement was a greater understanding of the key issues faced by technology companies and idea generation on how best to address such issues as they arise. Hayfin communicated relevant points back to the company we are the majority shareholder of to improve ESG risk management.

Maritime

Over the reporting period, in an effort to reduce greenhouse gas emissions and improve air quality across the vessels we invest in, we carried out the following actions:

- worked constructively with all technical and crewing managers in order to fully assess what improvements can be made during operations and the upcoming dry dockings in 2023;
- implemented a switch from conventional lights to LED lighting on two vessels in the fleet. We expect these changes to result in a fuel consumption saving and, in turn, a reduction to overall emissions in the coming years;
- installed freshwater fountains onboard all our container vessels, thus significantly reducing the use and disposal of plastic;
- carried out feasibility studies for deadweight tonnage (DWT) increase on all our container vessels, with successful outcomes of improvement of Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII) indicators, with structural work to be carried out during dry docks in 2023;
- piloted a data gathering and analytics service (SmartShip) on board our bulker in 2023, in order to capture real data and identify performance improvement options (technical and operational) and related efficiencies in fuel consumption and reduction in greenhouse gas emissions;
- carried out a feasibility analysis on the suite of actions that can be taken during the upcoming drydocks that will support at least a 5% reduction in fuel consumption and hence a 5% reduction in CO2 and NOX emissions. On this topic, we commenced discussions with green tech business Njord and maritime consulting firm Marsoft in Q3/Q4 of 2022 and agreed to work together in April 2023. This collaboration will bring together a bespoke package of fuel-saving technologies with, initially, four Greenheart-owned vessels and Marsoft's GreenScreen programme to quantify and certify CO2 savings through carbon credits. This is further described in Principle 4.

In relation to addressing the physical and mental well-being of crew members onboard our vessels, the following steps were taken:

- installation of freshwater fountains onboard all our container vessels, which minimised the need for physical loading and discharging;

- commenced working with a third-party to inspect vessels and carry out audits on board with questionnaires to crew members. The results will be reviewed in 2023, in addition to a full analysis being carried out with crewing managers. We aim to benchmark the results against best practices and introduce specific initiatives and rewards for improvement suggestions on Greenheart Management vessels. We also commenced work with a Human Resources specialist to compare the three management partners we work with and identify areas for improvement (to be completed in 2023).

High Yield and Syndicated Loans

Example: Engagements in our liquid credit strategies

Company description	Issue description	Issue category	Engagement method	Status	Engagement outcome	Result
Leading multi-play telecoms and media platform in Europe	Imprudent financial management	Governance	Direct engagement with management team and sponsor	Ongoing	Sponsor noted and appreciated our engagement, though it is too early to see an impact	Hold
Hotel and hostel chain operator in Central Europe	Verifying emissions data collection methodology and net zero stance	Environmental	Direct engagement with internal managers (HR, IR, Legal, Sustainability team)	Ongoing	Did not receive the information requested and therefore considering escalation with company management and the sponsor	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 recognise 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. Below is an overview of continued collaborative engagements we took part in over the reporting period 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 standardised industry templates.
- **Supporting members:** The Working Group benefits from peer-based discussions. The ACC supports members through the sharing of information and best practices and establishes dialogues with other industry bodies.
- **Consultations:** The ACC coordinates 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 including the following:

- the European Commission's consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings,
- the FCA's consultation on Sustainability Disclosure Requirements and investment labels and,
- ESMA's consultation on guidelines on funds' names using ESG or Sustainability-related terms.

We also separately responded to the PRI's "PRI in a Changing World" consultation, exploring key issues for the future of responsible investment; the PRI's vision, mission and purpose; and the value they provide to signatories.

2. **UN Principles of Responsible Investing**

Hayfin continues to be a member of the PRI's Private Debt Advisory Committee (PDAC) since early 2022 (the inception of the committee). The role of the PDAC is to:

- Advise the PRI on its program to identify how ESG factors are considered across PD markets.
- Review and advise on material to be produced and published and on events to be organised.
- Provide guidance to the PD market in relation to ESG integration and stewardship, address challenges that the market as a whole faces.
- Promote the harmonisation of industry frameworks.
- Create synergies with other industry bodies such as the AIMA/ACC, LSTA, ELFA etc.

Example: Collaborative engagement to provide guidance to the market

As part of Hayfin's work as a member of the PRI's PDAC, Hayfin participated in ongoing monthly meetings throughout the year with the other PDAC members. The first task the committee decided to address was to refresh the PRI's 'Spotlight on Responsible Investment in Private Debt', last updated in 2019. Hayfin actively participated in updating this market guidance document during the year. This included:

- Attending regular PDAC meetings to provide feedback on challenges the market is exposed to which the report should address.
- Participating in an interview on the ESG process within Hayfin and providing views on the direction of travel of certain key themes.
- Providing written feedback on the proposed contents of the report.

The outcome of this engagement is not yet complete but will involve publishing an updated guidance report to be used by GPs and LPs across private debt.

3. Global Maritime Forum

Hayfin continues to be a member of the Global Maritime Forum, whose main objective is to shape the future of global seaborne trade to prioritise 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. The forum also provides opportunities for continued engagement with a strong network of shipping stakeholders to exchange opinions, ideas, and best practices. Through our participation, we have deepened relationships with partners (charterers, managers, flag authorities etc.) to support commercial discussions around investments in greener, performance-enhancing technologies across our fleet of maritime assets.

During the year, Hayfin also continued its engagement with 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 to move to full decarbonisation by 2050.

4. ACC & PRI GP Due Diligence Questionnaire (DDQ) Working Group

A particular issue in the private credit asset class is standardising asset owner due diligence on private credit GPs' ESG processes. Many GPs have different ESG philosophies and approaches, making it challenging for asset owners to compare them and make judgements between them. To help solve this problem, the ACC and the PRI set up a DDQ Working Group consisting of a number of asset managers and asset owners, to develop a standardised LP ESG DDQ that LPs can administer to private credit managers going forward.

Hayfin worked at an industry level with other GPs and LPs over the course of 3 months to develop the DDQ. The objective was to consistently have LPs gathering relevant and decision useful info from GPs. During the course of the engagement, Hayfin participated in fortnightly meetings with the Working Group to develop the initiative and share knowledge/best practices.

The DDQ has now been released for public use by industry stakeholders. Hayfin was materially involved in the Working Group and the promotion of the DDQ via participation in a webinar which provided views on how to use the DDQ.

During the reporting period, Hayfin has also undertaken select collaborative engagements with third-parties on select topics. Hayfin undertook these engagements to learn from other parties and help address challenges we are facing in furthering our ESG efforts going forward.

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

Engagement Examples	
Topic	**Engagement Content and Outcomes**
Net zero in private credit	▪ Key issue to address was how private credit managers can best approach net zero as a theme for invested assets and at a fund-level. ▪ We engaged with the PRI and NZAM through several phone calls to learn about their status in developing guidance for addressing key challenges that we face in managing climate risk and driving net zero across our portfolio. ▪ Consensus following the engagement was that guidance for the asset class is still evolving and requires further collaboration and conversation between stakeholders. Hayfin intends to continue working with the PRI and NZAM to come up with solutions to barriers preventing Hayfin from credibly making net zero commitments at the fund level.
ESG data access and standardisation	▪ The private credit market suffers from a lack of tools to standardise and streamline ESG data collection processes between stakeholders. To address this, Hayfin, in collaboration with other credit managers, the Alternative Credit Council (ACC), the Loan Syndications and Trading Association (LSTA), and the PRI created a working group to try and address this. ▪ Initial meetings focused on agreeing on a set of ESG metrics that are most important for lenders to collect from borrowers, culminating in the PC-PE ESG Factor Map released in June 2022. ▪ The working group built on this to develop a detailed DDQ that lenders can issue to borrowers in a simple, standardised manner. This was launched through the ESG Integrated Disclosure Project in late 2022. ▪ Hayfin contributed directly to the development of the DDQ and sharing it with the wider market.

Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers

Hayfin avoids investing in countries, sectors, and issuers based on ESG and reputational concerns, such as weapons, thermal coal, 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. Industries with heightened risk that may require enhanced due diligence include, but are not limited to, construction, natural resources, oil and gas, petrochemicals, shipping, and transportation.

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 and/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:

- Red flag screening: The responsible analyst 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 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. Nevertheless, 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 have developed an engagement framework which is used by the investment team to guide a structured approach to engagement with issuers. The framework prompts the investment team to consider various issues throughout the course of engaging and to clearly articulate engagement objectives and outcomes. Some sample engagements can be found in the table on page 36.

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.

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 their own operational diligence on

Hayfin. Subsequently, we expanded the role to include performing operational diligence on companies where 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 in.

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/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 by 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, and geography limits at a portfolio level. Hayfin also monitors overall portfolio metrics including leverage, LTV, and company size.

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 and possible. Hayfin's monthly monitoring process is structured to proactively address 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 seeks to engage with our investee companies and escalate deterioration internally and with management teams wherever possible. Where we own majority equity stakes in investments, we recognise there is more we can do in these situations as we have outlined in Principle 11.

HAYFIN

Legal Disclaimer

This report is intended for information purposes only and not intended to create a business or professional relationship. It should not be taken as providing advice and should not be acted on or relied upon as doing so. Any reliance on this report is therefore solely at the user's own risk.

Certain statements in this report constitute “forward-looking statements”. When used in this report, the words “project”, “anticipate”, “believe”, “estimate”, “expect” and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors. All such forward-looking statements speak only as at the date of this report. Recipients must determine for themselves what reliance (if any) they should place on any forward-looking statement and no responsibility is accepted by Hayfin in respect thereof.

The information in this report has not been independently verified and no representation, warranty or undertaking (express or implied) as to information contained in the report or its fairness, accuracy, completeness or correctness is made and accordingly no reliance should be placed on the information contained herein. To the maximum extent permitted by law, neither Hayfin nor any of its personnel shall be liable (including for negligence) for any direct, indirect or consequential loss, damage, cost or expense arising out of or in connection with any person’s use of or reliance on this report. Hayfin has no obligation (and does not intend) to update or revise any information in this report to reflect events or circumstances occurring after the date of this report. The information in this report is for discussion purposes only and may be amended and/or supplemented without notice.

Please refer to our Privacy Policy at www.hayfin.com/privacy-policy for information regarding how we process your personal data when you make contact with us.