Polus Capital Management Limited
Cairn Loan Investments LLP
Cairn Loan Investments II LLP

Engagement Policy

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1. Introduction

This policy is applicable to (i) Polus Capital Management Limited ("PCML") (ii) Cairn Loan Investments LLP ("CLI") and (iii) Cairn Loan Investments II LLP ("CLI II")[1] (collectively, "Polus", "we" or "our", save where the context otherwise requires). PCML is 100% owned by Polus Capital Management Group Limited ("PCMGL"). PCMGL is majority owned by Mediobanca S.p.A ("Mediobanca").

This policy should be read in conjunction with Polus' ESG Policy and ESG Procedures document. Polus' ESG approach is based on (a) a negative screening/top-down approach using broad criteria to remove certain companies with specific business activities; (b) a fundamental bottom-up approach to assess an investment against asset-class specific ESG criteria; and (c) engagement with companies on ESG topics.

Polus defines ESG engagement as interactions between Polus (acting on behalf of its clients) as the investor and current/potential portfolio companies on ESG topics. Engagements are undertaken to influence positively (or identify the need to influence) ESG practices and/or improve ESG disclosure.

2. ESG Engagement Approach

2.1 Engagement by Asset Class

Polus believes it has a responsibility to endeavour to influence the companies it invests in, or provides financing to, to act in a responsible manner. Engagement on ESG topics forms an integral part of Polus' investment process. Polus takes two approaches to engagement: bilateral engagement and collaborative engagement. Overall, our engagement objective is to support portfolio companies in improving their ESG practices over the long term.

Polus takes an **active engagement approach**, emphasising direct dialogue with portfolio companies on ESG topics that could have a material impact on long-term financial performance. Polus focuses on achieving positive outcomes for the most material ESG themes for our portfolios' most material holdings.

Where necessary, **we also engage in a reactive fashion**, following an incident, a controversy, a red flag issue[2], or when a company shows deteriorating ESG performance. The analyst informs the CIO, Opportunistic Credit or CIO, Leveraged Credit of the ESG incident, controversy or underperformance and a decision is made on trading or continued monitoring.

As part of our investment monitoring, any material incidents are raised to the investment committee and dealt with appropriately. When ESG controversies occur, Polus will search for evidence that portfolio companies are seeking to understand the causes of issues and are proactive in strengthening management systems to minimise the probability of future controversies.

Finally, engagement can also occur at conferences, roadshows or field trips, when meeting management teams, which enable us to learn more about portfolio companies' actions, policies and performance while also updating them on Polus' ESG focus areas.

[1] CLI and CLI II are not affiliates of PCMGL nor of each other, but they were established by PCMGL and PCMGL seconds portfolio managers to each of CLI and CLI II, while Polus Capital Management Limited provides them with key support services, including but not limited to credit research and risk management.

[2] Red flags are defined as: child labour/forced labour; evidence of bribery and corruption; environmental destruction; predatory lending; animal cruelty.

Special Situations

For special situations assets, the approach depends on the level of influence embedded in the investment. In our interactions with portfolio companies, we push for better ESG disclosure and encourage improvement in key ESG areas within a company. Polus distinguishes between (a) control and high-influence positions and (b) passive positions.

(a) Control and high-influence positions

For control and high-influence positions, Polus engages with portfolio companies at the board level to drive ESG performance. We encourage boards to set annual ESG targets, for example, in relation to GHG emissions and in line with science-based targets where possible, putting companies on a reduction path to net-zero by 2050.

In these positions, we aim to improve ESG performance to unlock value. This usually involves improving governance in the first instance, as poor governance can lead to material value destruction. In our experience, once governance weaknesses have been addressed, improving other ESG areas within the company becomes much easier.

If relevant to the investment, we aim to use any voting rights to bring governance and reporting transparency of a portfolio company to the top quartile of its industry (covered in *Section 4 Voting*), while also pursuing our financial return objectives, with which this use is consistent.

(b) Passive positions

For passive positions, Polus will strive to drive ESG; however, the ability to influence can be limited, given the nature of these investments. Our inputs are recommendations to the portfolio company which we review annually.

For debt positions, we communicate to portfolio companies the importance of ESG topics and encourage companies to measure and improve their ESG performance.

Leveraged Credit

For Polus' leveraged credit business, Polus engages in dialogue with portfolio companies on strategy, risk and any ESG-specific topics. For example, analysts can engage directly with the company in the run-up to new issuance or raise topics with the loan sponsor. During this process, analysts share their concerns or the ESG risks that are identified for the company. The objective is to encourage portfolio companies to improve their practices and maintain a long-term direct dialogue. Polus also recommends that companies address ESG topics in their annual financial reporting.

Within leveraged credit, we invest in HY bonds, broadly syndicated loans and private debt. The focus of our engagement activities will differ by asset class type, considering the characteristics of the companies operating in each asset class, and by company type, depending on the company's corporate sector. For example, our engagement in private markets primarily focuses on enhancing ESG disclosure.

Most loan investments in our portfolios are in private equity-owned businesses. Portfolio managers and credit analysts have an ongoing dialogue with most PE firms operating in our target marketplace. It is a standard policy to meet with management teams on at least an annual basis. ESG concerns are added to the agenda for these meetings. For investments outside of PE ownership, ESG issues are raised with the management directly at annual meetings.

Structured Credit

Our structured credit investments typically involve taking exposure to a portfolio of loans or similar credit assets, originated and serviced by a bank or non-bank financial institution ("NBFI"). Our ESG engagement will typically involve (i) analysis of the relevant portfolio, (ii) communication with the originator or servicer and (iii) analysis of appropriate alignment of incentives and reporting governance within the structure.

We look for originators and servicers that are 'doing the right thing' with respect to ESG outcomes and have acceptable ESG risk. We are increasingly looking to receive ESG-specific information from our counterparties in relation to transactions and engage in discussions to understand if their ESG strategy is compatible with ours. We recognise that in most transactions we are unlikely to have a direct dialogue with underlying portfolio borrowers and, consequently, our ESG communication is likely to be limited to the originator or servicer (and other key transaction counterparties).

Polus distinguishes between (a) control and high-influence positions, and (b) limited influence and secondary market positions.

(A) CONTROL AND HIGH-INFLUENCE POSITIONS

For control and high-influence positions, Polus specifically engages with the transaction counterparties to drive ESG performance. We look for our counterparty to have an ESG policy aligned with Polus' and demonstrate that positive outcomes can be achieved over the position's potential life.

In our experience, the level of sophistication varies significantly by counterparty type. A major bank or NBFI counterparty is likely to have a well-developed ESG strategy but be in the early stages of implementation – in this case, our engagement is expected to be focused on applying ESG filters, so as to put a price or limitations on undesirable ESG exposures in the underlying portfolio and transaction documents. A smaller or specialist NBFI is less likely to have a developed ESG policy and so more of our engagement would be on the strategic implementation of one. In most cases, we also expect communication will be necessary to improve ESG reporting as this is not yet standard in the industry.

(B) LIMITED INFLUENCE AND SECONDARY MARKET POSITIONS

For limited influence positions, Polus is less likely to be able to have an impact on the counterparty or transaction, however Polus can in most cases have a discussion with the counterparty to understand ESG considerations and, where appropriate, make recommendations in a similar fashion to the high-influence positions. Where Polus believes that better ESG outcomes can be achieved (e.g. reduced ESG risk or enhanced market liquidity), Polus may also consider a differential pricing dialogue with the counterparty.

In secondary market transactions, the counterparty will generally be a third party to the transaction and Polus will likely have very limited or no scope to discuss ESG factors with the counterparty. In such transactions, Polus is still able to create a price for ESG factors through considering ESG risk and potential market liquidity.

2.2 Selection Process

Forms of Engagement

There are different ways to engage, for example:

- Written correspondence to a portfolio company to raise concerns
- Meet and engage with representatives from different teams and levels of the portfolio company, such as the board, senior management and operational specialists

- Raise key issues through a portfolio company's advisers, such as the sponsor

Engagement efforts are tracked, stored and centralised through our email system and a dedicated ESG engagement channel (ESG@poluscapital.com).

How We Prioritise Engagements

The way we prioritise our engagements is dependent on the asset class and investment type:

For special situations, proactive engagement primarily takes place for control positions with a cumulative exposure of more than $5 million in aggregate. We select ESG topics that are the most material and relevant for the investee company. The following ESG topics feature highly on our agenda:

- Corporate Governance and Reporting
- Climate Change and GHG Emissions
- Health & Safety
- Diversity & Inclusion
- Sustainable Infrastructure & Industrialisation

For leveraged credit, Polus prioritises engagements by investment size and ESG score. We use MSCI ESG scores, where available; otherwise we assign an internal ESG score to an issuer, using a methodology derived from MSCI's approach. Each year, issuers with (i) the lowest assigned ESG score and (ii) the highest exposure in our portfolio(s) are selected for (further) engagement. ESG topics are selected based on their materiality to the portfolio company's business.

For structured credit, Polus acknowledges that this market is lagging other fixed income asset classes and has yet to benefit from ESG data standards, market norms or benchmarks that are already enjoyed by traditional listed assets. However, Polus is actively involved in industry initiatives such as with the PRI Securitised Products Advisory Committee to increasingly engage with key market participants to enhance transparency and disclosure of ESG information in this market segment.

ESG Objectives and Timing

Our approach to ESG engagement focuses on achieving real-world outcomes and achieving change. When determining when to engage and setting an objective for the engagement, we consider the following:

- **Materiality.** We focus our engagement on the most material ESG threats and opportunities to the portfolio company. These are areas which could have a significant impact, both negative and positive, on a company's long-term value.
- **Regional context.** The materiality of issues and our expectation of portfolio companies vary by country and region.
- **Realistic outcomes.** We consider both leading practice and what could realistically be achieved by the portfolio company in the next few years, including considering the size of the company.
- **Ability to monitor progress.** We use objective, measurable metrics or indicators that can be used to assess a company's performance on an ESG topic.
- **Length of engagement.** We aim to set short to mid-term objectives that can often be achieved over a 12 to 24-month period depending on the intensity of the engagement, but with a longer-term vision in mind. We recognise that some issues may require more urgent action than others, and that other objectives may take longer for a company to achieve.

In addition, either Polus or our end-investors may be subject to regulatory ESG disclosure requirements for which we would need to seek further ESG information from our portfolio companies.

We recognise that success factors may be subjective, and that Polus' influence is rarely the sole driving force for change. Regardless, we believe it is critical to track companies' progress and measure the outcomes of our engagement, no matter how large or small our influence may be.

There are several stages engagements can go through, in our view:

Stage 1 - Initial contact: Our concern is raised with the company.

Stage 2 – Company acknowledgement: The company acknowledges the issue as a serious investor concern, worthy of a response.

Stage 3 – Company response: The company develops a credible strategy to achieve the objective or address the concern.

Stage 4 - Engagement completion ('success'): The company implements a strategy or adopts measures to address the concern.

2.3 Escalation Process

Sometimes engagement with a portfolio company stalls and we need to escalate. We identify several methods to escalate our engagements, and these may take place in any order or frequency depending on the nature of the engagement:

- targeting a higher level of the corporate hierarchy
- meeting or otherwise communicating with non-executive directors or the chair of the board
- expressing our concerns via company advisers or brokers
- collaborating with other investors
- withholding support or voting against management and directors
- submitting resolutions at the AGM
- requisitioning extraordinary general meetings
- public policy engagement
- divesting, which may mean a full or partial exit

Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the portfolio company has demonstrated progress through previous engagements.

Whilst an engagement may not initially result in the desired outcome, this would not automatically lead to a formulaic process of exclusion or underweight in the portfolio. The engagement result would be discussed and shared in detail with portfolio managers, and it would ultimately be up to the portfolio manager to decide whether to include, underweight or exclude the name in the relevant portfolio based on the specific investment strategy and/or investment guidelines/restrictions.

2.4 Conflicts of Interest

The management of conflicts is important in building long-term relationships with our portfolio companies. Polus has a robust approach to conflicts of interest with comprehensive controls operating at all levels within the business to ensure that potential and actual conflicts of interest are identified and dealt with swiftly and at an appropriate level. These controls are set out in Polus' Conflicts of Interest Policy.

3. Collaborative Engagement

Apart from bilateral engagement, Polus strongly believes in collaborative engagement with like-minded peers. Polus can make a more significant impact collectively with other investors rather than individually.

We adopt a selective approach when deciding which collaborative initiatives we will participate in or support, focusing on topics and groups where our involvement will have a material impact.

For example, Polus works closely with the PRI and the European Leveraged Finance Association (ELFA) to facilitate engagement between investors and corporate borrowers on important ESG topics.

Polus is also an active member of the PRI Securitised Products Advisory Committee, which advises the PRI on its programme to identify how ESG factors are considered in structured products, enabling collaboration for change and impact.

ELFA is a professional trade association representing the European leveraged finance investor community. Polus' Head of ESG has been involved in the ELFA's ESG Disclosure Initiative in her role as co-Chair of the ELFA ESG Committee.

Polus is a member of the Alternative Investment Management Association (AIMA) and Standards Board for Alternative Investments (SBAI) ESG Working Groups. These working groups aim to promote ESG integration and ESG disclosure in the alternative investment market.

4. Voting

In relation to Polus' long equity investments via equity or equity-like securities, Polus may attend and/or vote at company shareholder meetings.

For further details, please refer to Polus' Equity Investments (Control and Voting) Policy which sets out how Polus undertakes its stewardship and shareholder engagement.

5. Reporting and Transparency

Polus is committed to providing transparency and regular reporting on our engagement activities, both internally and externally. For our CLO investors, we provide selected engagement examples in our annual ESG reports. For our special situations investors, we provide ESG performance updates for each of our control positions with an exposure of more than $5 million, which includes ESG improvements to date, ESG targets set and a climate scenario analysis.

This Engagement Policy is published on Polus' website, is kept up to date by the Head of ESG.

Polus is a signatory to the PRI and commits to the PRI reporting obligations.