

POLUS CAPITAL MANAGEMENT GROUP LIMITED
 CAIRN LOAN INVESTMENTS LLP
 CAIRN LOAN INVESTMENTS II LLP
 ESG POLICY

Amendment No.	Date of Amendment	Change / Update to Policy
1	March 2019	
2	September 2019	Policy coverage extended to Cairn Loan Investments II LLP; update to ESG Policy Committee members.
2	March 2020	Exclusionary screening criteria expanded to include nuclear weapons and cannabis for recreational purposes. Incorporates Mediobanca's Group Policy on Responsible Lending and Investing.
4	November 2021	Incorporation of Bybrook Capital's ESG approach; additional explanation of Cairn Capital's three-pillar based ESG strategy and corporate responsibility initiatives
5	April 2024	More explicit alignment with Mediobanca's Group ESG Policy and updates on strategy-specific ESG approaches, including US Leveraged Credit

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Introduction

This policy applies to all financial assets managed by Polus Capital Management Limited, Polus Capital Management (US) Inc., Cairn Loan Investments LLP and Cairn Loan Investments II LLP¹ (together referred to as "Polus" for the purposes of this document, as the context requires).

Polus is committed to adopting and implementing responsible investment² principles in a manner that is consistent with our fiduciary responsibilities to clients. This document specifically sets out Polus' approach to the management of environmental, social and governance ("ESG") issues, including the principles which Polus aspires to. This policy is supported by a set of ESG procedures ("ESG Procedures") which are implemented in order to integrate these principles into Polus' investment activities. Polus' commitment to responsible investment is driven by (i) the belief that ESG issues can be a source of risk and financial performance; (ii) our aspiration to contribute to society as a good corporate citizen; and (iii) our aim to meet evolving sustainability needs of clients and investors.

Polus recognises that the management of ESG issues is a fundamental aspect of a business's long-term success.

A large number of investors in Polus-managed funds or vehicles, especially pension funds, insurance companies and endowments, have made explicit and implicit commitments to improving ESG performance across their investment portfolios as they aim to fulfil their social mandates alongside their financial mandates. Certain single-investor mandates may have ESG guidelines over and above this policy, which Polus will adhere to.

The Importance of ESG

Considering ESG factors is an essential part of the investment process. ESG analysis may uncover unintended or mispriced risk; for example, increased regulatory scrutiny and legislative changes can have substantial positive and negative impacts on financial performance. Polus believes that well-run companies tend to have better ESG credentials and generate better returns. Most importantly, improving the ESG performance of a company, in our view, creates value as it is essential for long-term sustainability and increases the breadth and quality of the potential buyer base on exit. Sub-standard ESG performance is not a barrier to investing if the intention is to improve it via our engagement. In addition, shorting securities of companies with poor ESG performance can trigger positive change.

Often, financial considerations are cited as a reason for poor ESG performance, as there tends to be an initial cost to implementing better ESG policies. The payback of an ESG strategy may take some time before the benefits are seen. The benefits may be hard to measure and/or predominantly non-financial in the form of positive externalities (or fewer negative externalities). Polus believes improvements are much more likely to occur if the investment manager community pushes for change, especially if done in a coordinated manner.

By adopting this policy, Polus formalises its approach to incorporating ESG considerations into its investment process.

International Guidelines

Principles for Responsible Investment

Polus Capital Management Group Limited is a signatory to the UN-supported **Principles for Responsible Investment** (PRI). The PRI is a global, collaborative network of investors established in 2006 in recognition of the increasing relevance of ESG issues within the investment process. The Principles set forth by the PRI are a set of best practices for incorporating ESG issues into investment decision-making where consistent with fiduciary responsibilities. As a signatory, the firm commits to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

¹ Polus Capital Management Limited provides key support services to Cairn Loan Investments LLP and Cairn Loan Investments II LLP, including, among others, credit research, legal and compliance, risk management and operations.

² Responsible investment is an approach to investing that aims to incorporate ESG factors into investment decisions, with the aim to better manage risk and generate sustainable, long-term returns. ESG integration is the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions.

4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

UN Global Compact

Through Mediobanca S.p.A., the firm is a participant in the UN Global Compact, which seeks to promote responsible corporate citizenship based on the following ten principles across four focus areas.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Standards Board for Alternative Investments (SBAI)

Polus Capital Management Group Limited is a signatory to the SBAI and supports the SBAI standards, which cover the areas of Disclosure, Valuation, Risk Management, Fund Governance and Shareholder Conduct.

Approach

Polus' approach is based on three pillars:

- I. Manager level activities
- II. Portfolio level activities
- III. Industry collaboration

Polus is mindful of the fact that ESG regulation and implementation standards are constantly evolving, and Polus aims to be an early adopter. As such, Polus reviews industry developments at its quarterly ESG Policy Committee meetings or on an ad-hoc basis if necessary.

Manager Level Activities

Not only does Polus fully embrace ESG in its investing activities, but it also strives to be a socially responsible company and, therefore, aims to integrate sustainability into its business strategy and management. The "Corporate Social Responsibility" section below provides further details on how Polus manages the ESG

aspects of its business operations, with a specific focus on our people, our community and our environment.

Highlights of this include:

- being carbon neutral at the firm level;
- reducing our travel footprint for all our business travel by the implementation of staff travel guidelines;
- resident in an office that is BREEAM certified that also uses electricity from renewable sources, and;
- having in place a Diversity & Inclusion Committee.

Portfolio Level Activities and Industry Collaboration

At the portfolio level, Polus' 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.

Firm-wide exclusionary screening

Polus actively seeks to avoid investing in the following companies:

- companies (or their affiliates, holding companies or financing subsidiaries) directly involved in the production or sale of cluster weapons³, anti-personnel landmines⁴, nuclear weapons, chemical weapons, biological weapons⁵ or depleted uranium ammunition, or components designed explicitly for such weapons, or that are an essential component for the functioning of such weapons, or companies that provide assistance, technologies or services for such weapons. This includes companies which fall within the scope of Italian Law No. 220 of 9 December 2021⁶;
- Companies convicted of serious breaches of human rights, determined in the reasonable discretion of Polus based on its knowledge at the relevant time;
- Companies convicted of serious breaches of regulations in the areas of accounting fraud, money laundering or bribery and corruption, determined in the reasonable discretion of Polus based on its knowledge at the relevant time;
- Companies convicted for serious environmental damage, determined in the reasonable discretion of Polus based on its knowledge at the relevant time;
- Parties sanctioned by supranational entities (e.g. the UN, EU or OFAC)⁷ or nation states with serious shortcomings in their legislation for tackling terrorism financing and money laundering, the latter determined in the reasonable discretion of Polus based on its knowledge at the relevant time; and
- Companies involved in the R&D, production and distribution of cannabis for recreational uses.

Polus may assess whether or not to resume operations with such parties on a case-by-case basis, including in view of any mitigation actions implemented by the parties involved and/or the characteristics of the controversy itself.

³ A bomb, missile, rocket or shell that carries multiple explosive submunitions and disperses them over an area, causing widespread and indiscriminate harm and damage. Submunitions generally explode in the area or on impact. If they do not explode, they can be dangerous to civilians long after the weapon has been fired.

⁴ A munition that is placed under, on or near the ground or other surface area and explodes by the presence, proximity or contact with a person or upon command by an operator from a remote location. They can cause harm for many years.

⁵ Weapons that use pathogens such as viruses, bacteria and disease-causing biological agents, toxins or chemical substances that have toxic properties that kill, injure or incapacitate.

⁶ The list of companies involved in one or more activities covered by the law is kept, regularly updated and distributed to Polus by the Mediobanca S.p.A. Compliance team.

⁷ Reference is made to the list published and updated by the EU on a regular basis.

These exclusions (i) apply across all asset classes and strategies, irrespective of an investment's holding period; (ii) do not apply to passive holdings in index-tracking instruments (or derivatives in them) or reference portfolios within Polus' structured credit strategy, and (iii) do not apply to short positions.

As explained further in the ESG Procedures, structured credit reference portfolios typically feature diversified portfolios with hundreds to tens of thousands of underlying individual obligors, which may also evolve over the life of a transaction. Polus' focus with respect to ESG is to carry out an extensive due diligence on the relevant sponsor's (e.g. the bank lender's) underwriting criteria and ESG credentials, and to influence where possible the portfolio selection criteria within the structure.

As a Mediobanca Group company, additional restrictions apply in accordance with the Group's Policy on tackling money-laundering and terrorism financing. The Group does not enter into relations⁸ with:

- "Shell" banks or fiduciary companies, trusts, anonymous companies or subsidiaries owned through bearer shares based in high-risk third countries included in the EU list; these measures also apply to entities, with different names, based in such companies for which it is not possible to identify the effective owner or to check their identity;
- Parties convicted of the following crimes: conspiracy for terrorist purposes, including international, or in order to subvert the democratic order, weapons crimes against the state, conspiracy in mafia-style organisations, aiding and abetting the commission of the underlying crimes of money laundering or terrorism financing, human trafficking or drugs trafficking;
- Parties resident in or who otherwise perform the majority of their activities in countries under total embargo⁹.

In 2023, Polus published its Modern Slavery Statement on its website, which outlines Polus' policy, approach and status in relation to the Modern Slavery Act 2015.

A client may have specific sustainability preferences and Polus can take those into account.

For example, some of our funds or accounts restrict investments in companies that derive significant revenues from thermal coal extraction. Other mandates do not invest in companies principally involved in civilian firearms, tobacco production, pornography, prostitution, payday lending and speculative oil and gas extraction, amongst others.

ESG integration

Polus adopts a fundamental bottom-up approach to assess an investment against ESG information, alongside traditional financial analysis. This means that when evaluating possible investments in terms of the expected risk-return ratio, relevant and material ESG factors are explicitly and systematically taken into account by analysts. By doing this, Polus believes it ends up with a better risk-weighted return for investments.

The actual ESG approach differs per strategy and the ESG Procedures provides an overview of the practical implications of each approach. In summary:

- For European leveraged credit, credit analysts systematically integrate ESG factors into the investment process and assign an ESG rating to each corporate borrower in the portfolio, confirming (i) compliance with the UN Global Compact Principles, and (ii) no severe violations of certain other international human rights and labour standards. In most instances, the investment memo has an additional dedicated ESG section.
- For US leveraged credit, each loan investment complies with the UN Global Compact Principles.
- For special situations assets, the approach depends on the type of investment (e.g. long, short or litigation) and the level of influence embedded in the investment. For control and high influence positions, Polus seeks to influence ESG performance to unlock potential value. For passive positions, Polus aligns with management's existing ESG agenda as a value driver. Additional ESG commitments apply to the Polus Special Situations Fund, which was launched as an SFDR Article 8 fund.
- For structured credit, the investment team systematically integrates material ESG factors into the investment underwriting process and an ESG scorecard is created for each investment, which

⁸ "Relations", for the purposes hereof, refers to the provision of banking and/or financial services.

⁹ "Embargo" is defined for the purposes hereof as an absolute ban on trade and exchanges with countries under sanctions, generally for reasons of international security, with the aim of placing the governments of such countries in a difficult political and economic situation.

covers an assessment of the sponsor, the reference portfolio and structural features of the transaction.

Fundamental in-house research

Through Polus' internal research process, analysts seek to understand how companies perform on key ESG issues and how companies manage them (and if data is available, how this compares versus peers and how this has changed over time). ESG issues are taken into account, when they are considered to be material or directly relevant to the entity in question.

Whilst the Head of ESG assists the analysts in determining the most relevant ESG topics for each asset class/strategy, the responsibility for identifying (and monitoring) material ESG considerations for each investment lies with the analyst.

With regards to **environmental factors**, the aim is to understand environmental risk (and opportunities) facing the company and the potential impact of this on its operational performance, competitiveness and reputation; for this purpose, analysts may look into how the company manages and reports on emissions, water, energy, waste and other metrics.

With respect to **social factors**, the purpose is to evaluate the management of issues such as labour, health and safety and community relations and understand potential reputational or litigation risks from any mismanagement.

On **corporate governance**, the objective is to identify issues and analyse risks relating to the organisation of the company.

External research

MSCI ESG Research LLC

Polus has engaged the services of MSCI ESG Research LLC ("MSCI ESG") to complement internal ESG assessments on companies. MSCI ESG provides ESG ratings and research on ESG-related business practices of companies. The ESG ratings are industry-specific and are calculated relative to industry peers and analysts use these ratings in conjunction with their wider analysis.

For European leveraged credit, for example, if MSCI ESG rates the issuer, the rating is (i) included in the credit memo which forms part of the investment decision and (ii) discussed in the Investment Committee. The responsibility lies with the analyst.

For some issuers, there is no coverage from MSCI ESG; in these instances, the Investment Committee relies on the analyst's assessment alone.

In addition, across the platform, analysts have access to sell-side ESG research, credit rating agency ESG research and expert knowledge from third-party consultants we work with, such as ClimatePartner UK Limited.

Trucost Environmental Dataset, part of S&P

Polus subscribes to GHG emissions data from the Trucost Environmental Dataset, part of S&P Global Market Intelligence. The Trucost Environmental data can be used to assess environmental costs, identify and manage environmental and climate risk, and conduct peer and portfolio analysis from a climate and environmental perspective.

Engagement¹⁰

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 has formalised its engagement commitments in its ESG Engagements Policy, as briefly outlined below.

¹⁰ ESG engagement refers to interactions on ESG topics between Polus (acting on behalf of its clients) as the investor and current/potential portfolio companies. Engagements are undertaken to influence positively (or identify the need to influence) ESG practices and/or improve ESG disclosure.

Bilateral engagement

For Polus' leveraged credit business, as debt holders, Polus can stimulate dialogue with issuers 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 issues 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 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.

For special situations assets, the approach depends on the level of influence embedded in the investment. For control and high influence positions, Polus engages with companies at the board level to drive ESG performance. Annual ESG performance targets are set. For passive positions, although Polus will strive to drive ESG, our inputs are recommendations that are reviewed annually. For debt positions, we communicate to companies the importance of ESG topics and encourage companies to measure and improve their ESG performance.

For structured credit, our ESG engagement will typically consider (i) an analysis of the relevant portfolio, (ii) communication with the originator or servicer and (iii) an analysis of the appropriate alignment of incentives and reporting governance within the structure. For control and high-influence positions, Polus engages with 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. For limited influence positions, Polus can, in most cases, have a discussion with the counterparty to understand ESG considerations and, where appropriate, make ESG recommendations. In secondary market transactions, Polus will likely have limited or no scope to discuss ESG factors with the counterparty; however, Polus can still create a price for ESG factors by considering ESG risk and market liquidity.

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. 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 Structured 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 SBAI ESG Working Groups. These working groups aim to promote ESG integration and ESG disclosure in the alternative investment market.

Training

All investment team members have a thorough understanding of Polus' ESG policy, ESG Procedures and ESG approach. The investment team receives an update whenever there is a significant policy update and following each ESG Policy Committee meeting. Additional ESG training, where required, is organised by our Head of ESG or MSCI ESG, for example, to update the team on sector or regulatory developments.

ESG Team

Head of ESG

Tina De Baere, as Head of ESG, is responsible for the development and implementation of the ESG policy. Tina works closely with the investment team in integrating ESG factors into the investment process. Tina monitors compliance and consistency with the ESG policy across Polus' investment platform and gets ad hoc support from the ESG Policy Committee.

ESG Policy Committee

The ESG Policy Committee comprises senior executives from across Polus' business, including Andrew Burke (CIO Leveraged Credit), Graham Murphy (CRO) and Christian Herrmann (Special Situations senior analyst). Members of the investment team, business development, investor relations, legal and compliance teams also frequently attend. The ESG Policy Committee meets at least quarterly to review the ESG policy and to discuss further enhancements to the ESG framework. ESG concerns on specific issuers are discussed in the Investment Committee.

The Boards

Any material ESG developments are discussed at the respective boards of Polus, and any amendments to this policy are subject to the approval of Polus Capital Management Group Limited's board. Such amendments are also reviewed by the respective boards of Polus. The Head of ESG prepares an ESG statement ahead of the Polus Capital Management Group Limited's board meeting.

Corporate Responsibility

Polus strives to be a socially responsible company. The below provides an overview of how Polus manages the environmental, social and governance aspects of its business operations, focusing on our people, our community and our environment.

Our People

Employee wellbeing Polus provides good employment conditions and a safe and healthy workplace. Polus promotes a healthy work-life balance and provides employees with physical and mental health benefits, such as access to Unmind. Unmind is an independent digital platform that supports mental health and wellbeing, providing tools to manage stress, improve sleep and focus, amongst others. Polus offers flexible working arrangements, private health insurance, ample holiday allowance, generous maternity leave and shared parental leave packages.

Polus provides equal opportunities and protection against any discrimination.

Diversity & Inclusion (D&I) Polus strives for diversity and inclusion within its workforce and company management. Polus' D&I objective is to uphold and encourage a company culture that seeks and values diverse backgrounds, perspectives and ideas. Polus aims to create an inclusive environment built on trust, respect and integrity, where people can be themselves and maximise their potential. It strongly believes this will lead to enhanced collaboration, engagement and decision-making, yielding better results for the firm and its investors. This D&I commitment has been formalised in a D&I policy.

Polus' D&I Committee advises the Executive Management Committee on its D&I strategy and helps it implement identified initiatives. The strategy is reviewed annually to measure progress and establish new objectives for the upcoming year. The D&I Committee's focus has been to:

- (1) increase hiring and promotion of diverse talent;
- (2) train and educate employees on D&I topics;
- (3) implement initiatives to promote inclusion; and
- (4) positively impact our local community.

One of the first D&I initiatives from the D&I Committee was to conduct an employee D&I engagement survey run by an external consultant to improve the firm's understanding of diversity and inclusion within the organisation. The survey received a strong employee participation rate of 82%, and Polus has continued to run an annual survey ever since.

Our Community

Charitable donations Polus supports various charities and community initiatives, e.g. employees participate in the annual Save the Children Christmas Jumper Day.

Volunteering Polus encourages employees to take two days off each year to volunteer at a charity.

Our Environment

Environmental footprint In 2019, Polus removed all plastic water bottles from its office and replaced them with refillable glass bottles available to staff and visitors. In 2020, the company moved to an office that is BREEAM-certified. The building also uses electricity from renewable sources. In 2021, we engaged ClimatePartner UK Limited to measure the firm's carbon footprint and to assist in achieving carbon neutrality at the firm level. To date, we have completed the measurement of our corporate carbon footprint for 2019, and from 2021 to 2023, which includes scopes 1 and 2 and aspects of scope 3, such as staff commuting and business travel.

Business travel Polus aims to reduce its travel footprint for all its business travel.

Travel is one of the business' principal sources of carbon emissions. Whilst travel can have numerous advantages in terms of reaching our investors, exchanging ideas and improving partnerships with peers, service providers and other stakeholders, the environmental impact of travel needs to be recognised and considered. Before making travel plans, employees are asked to consider the use of videoconferencing. Employees are made aware of the environmental impact of travel. When travel is unavoidable, staff are encouraged to minimise the overall number of journeys taken on behalf of the company. Public transport is preferred over private taxis/cars. Rail travel is encouraged over air travel. Polus is committed to offsetting the estimated carbon footprint of any business travel using a carbon offset scheme, such as the Gold Standard.

Mediobanca Group

Polus' ESG approach is aligned with Mediobanca's Group ESG Policy, designed to promote sustainable development by integrating ESG criteria into the Group's business model.