Muzinich ESG Policies and Procedures

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Muzinich & Co

Contents

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

George Muzinich, Founder and Executive Chairman

Our ESG Philosophy

Muzinich & Co., Inc. and its affiliates ("Muzinich", the "Firm" and "we") became a signatory to the UN-supported Principles for Responsible Investment ("PRI") in 2010 and we continue to view the six Principles as a foundation for our responsible investment approach.[1] We believe that investor focus on factors such as environmental sustainability, social wellbeing and corporate governance will continue to grow as changes in public policy, regulation, consumer preferences, and the incentives for greater resource efficiency become increasingly important sources of risk and opportunity for businesses and investors.

We believe it is critical to have a good understanding of the types of environmental, social and governance ("ESG") factors that are most likely to be material to a company's short, medium, and long-term resilience and success. As a manager of corporate credit investments, we primarily focus on issues which have the potential to negatively impact credit strength and the macro environment, but equally we recognize that good management of ESG issues and a shift towards a more sustainable economy presents significant investment opportunities.

As a long-term investor, we also believe it is important to consider the potential negative impact of portfolio companies on the environment and society, not only because those impacts can also harm investment value and investor reputations, but also because we believe investors can minimize their negative impacts without necessarily compromising returns. Ultimately, we believe that an investment approach which is both ESG and impact-aware, is well aligned with our fiduciary obligations as a fund manager.

Furthermore, we consider it important to act as responsible stewards of our investments and engage companies to help identify and manage material ESG risks and sustainability impacts. While we very rarely hold equities directly, or have exposures via hybrid or convertible securities, we strongly believe that as a lender of capital we can exert influence over management decisions relating to ESG issues in the best long-term interests of those companies.

In addition, we believe climate change poses one of the single greatest risks to environmental, political and economic stability worldwide, and that moves to address climate change will also be a major driver of future investment opportunities. We believe investors have a critical role in identifying and managing physical and transitional climate risks and supporting the growth of solutions for a cleaner, low carbon economy.

We believe investor transparency and accountability is a critical element of responsible investment and seek to provide our investors with ESG-related disclosures in line with their expectations and those of relevant regulatory bodies across the range of asset types that we manage.

Finally, we aim to offer investors ESG solutions across a range of credit strategies to bring their investments in line with their own sustainability preferences, objectives and values.

Sustainable finance continues to evolve rapidly, and we are deeply committed to developing our ESG policies and procedures in line with the expectations of our clients. We strongly encourage investors to share their views on this critical aspect of our business.

[1] Details of the PRI Principles are available online: https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment

About Muzinich's ESG Policies

Muzinich has published various standalone statements and policies relating to ESG on the Responsible Investment page of our website[2]. These documents have been produced by Muzinich's Director of Responsible Investing with support from the Firm's ESG Advisory Group. Our ESG Advisory Group is responsible for reviewing each of these policies at least annually and for suggesting updates to capture material changes to our internal policies and procedures. These policies are ultimately reviewed, and material changes approved, by one or more members of the Muzinich Boards of Directors. Further information on Muzinich's ESG governance is available in the "Muzinich's ESG Governance and Resourcing" document.

Certain policies, particularly those which relate to specific regulatory reporting requirements, may be reviewed and updated on different timelines and signed off by different Muzinich personnel, depending on the specific requirements of those regulations.

Scope and Application of Our ESG Policies

Muzinich invests in various types of corporate credit including bonds, securitized debt, credit derivatives, money market instruments, loans, private debt, leases, and asset financing, which all have distinct characteristics relating to underlying issuers; investor and portfolio concentration; liquidity; capital structure; duration; and risk and return profiles. We may therefore apply certain aspects of these policies to a greater or lesser extent across different investment strategies for various reasons such as variations in investment horizons, the availability of ESG information for different debt issuers, or to meet client-specific ESG objectives.

Nevertheless, we endeavor to follow the essence of these policies across all the investment strategies that we manage, including, but not limited to, mutual funds, commingled funds, and sub-advised or separately managed accounts. Where applicable, we have highlighted the key differences in our approach to implementing these policies and endeavor to highlight instances where these policies do not apply to for the various asset classes and financial products that we manage.

We note that none of the items in these policies interferes with our responsibilities as an ERISA fiduciary with respect to our ERISA clients.[3]

[2] Click this link to access our website's responsible investing page https://www.muzinich.com/about/responsible-investing

[3] The Employee Retirement Income Security Act of 1974 ("ERISA") is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans. See online: https://www.dol.gov/general/topic/retirement/erisa

Muzinich's ESG Governance and Resourcing

We believe best-practice responsible and sustainable investment requires strong commitment throughout our organization with ultimate oversight and accountability from members of our Boards of Directors.

We also believe that for our responsible investment policies to be effective, almost all functions within our firm, from research and risk, to compliance and marketing, must actively contribute to our ESG efforts to ensure that ESG considerations are fully integrated within our business.

We have therefore developed an organizational structure which comprises the three ESG groups outlined in Figure 1.

Figure 1: Muzinich ESG oversight and governance.

Oversight

Muzinich Boards of Directors

- Oversight and accountability for ESG policies and practices
- Muzinich's Co-Head of Public Markets is ultimately responsible for ESG oversight
- Four members of Muzinich boards sit on ESG Advisory Group

Advisory

Muzinich ESG Advisory Group

- 15 Muzinich staff including ESG Integration Group members and representatives from relevant teams within the Firm
- Recommends ESG policy and strategy updates to Muzinich boards
- Helps disseminate ESG practices to respective teams
- Oversees ESG data vendor decisions
- Ensures consistent external messaging on ESG matters

Additional support

Additional support for ESG work comes from: client services, compliance, investment research, legal, portfolio management, product development, client reporting, and risk teams PLUS external data vendors

Implementation

ESG Integration Group

- 5 Muzinich staff, partly or fully dedicated to ESG policy implementation
- Implements the Firm's ESG policies and procedures day-to-day including items mentioned in this policy such as: ESG screening, research, reporting, engagement etc.

ESG Eligibility Committee

- Reviews companies on Muzinich's ESG "conduct watchlist" and determines investment eligibility
- Watchlist comprises companies which breach international norms or standards on human rights, labour rights, impacts on the environment, fraud and corruption

ESG Regulations Steering Committee

- 10 Muzinich staff, from compliance, ESG, investment, legal and operations teams
- Responsible for addressing all ESG regulation requirements including EU Sustainable Finance Disclosure Regulations, EU Taxonomy, and rest-of-world requirements
- Advised by external legal counsel

Muzinich Board Members

The following Muzinich staff sit on Muzinich's ESG Advisory Group[4] and are also members of the Boards of Directors of Muzinich entities:

- Chief Administrative Officer & Director, Compliance *
- Chief Operating Officer - UK, EMEA & APAC † ‡
- Co-Head of Public Markets †
- Global Co Chief Compliance Officer ‡

* Muzinich & Co., Inc. board
† Muzinich & Co. Limited board
‡ Muzinich & Co. (Ireland) Limited board

ESG Integration Group

Muzinich's ESG Integration Group:

- comprises staff whose roles are dedicated partially or fully to ESG;
- is responsible for the day-to-day implementation of the Firm's ESG policies;
- also participates in the ESG Advisory Group; and
- is chaired by the Director of Responsible Investing.

ESG Advisory Group

Muzinich's ESG Advisory Group:

- meets periodically to discuss, develop and implement our ESG policies and procedures; and
- is responsible for advising on the Firm's ESG policies and supporting implementation and dissemination of those policies to their respective teams; and
- has a terms of reference which requires members to represent key functions within the Firm including, but not limited to research; public and private markets investment; risk; compliance; operations; client servicing; product development and relevant operational functions.

ESG Eligibility Committee

The ESG Eligibility Committee:

- comprises staff from a range of functions where investment team professionals must remain a minimum to ensure relative independence in decision making
- is responsible for determining eligibility of certain debt issuers which may carry outsized reputational and/or financial risks due to their involvement in controversial practices or industries such as severe human rights abuses, environmental harm, or business integrity failures; and
- issue determinations that are binding for the Investment Team.

Staff ESG Training and Incentives

Muzinich seeks to ensure that our staff are adequately informed and educated on ESG matters that are relevant to their roles. To this end we have established an ESG training programme to ensure appropriate and comprehensive training for our staff. To ensure they are familiar with the key concepts of responsible investment, we provide ad hoc ESG training led by our Director of Responsible Investing or external specialists, including staff from our external ESG data providers. We also aim to ensure that all new joiners are familiarized with our ESG policies and procedures where relevant to their role and have run basic mandatory online ESG training for the majority of our staff. Furthermore, various Muzinich staff members have taken and passed more formal self-taught, or university led ESG courses and certifications.

For Muzinich's investment professionals, the variable part of their remuneration is evaluated based on the overall performance of Muzinich's portfolios (including portfolios with specific ESG characteristics or objectives). As of Q1 2021, the responsibilities, evaluation and compensation of public debt research analysts includes a formal responsible investment component which is segregated from other responsibilities or compensation metrics. We would also note that Muzinich includes learning goals for responsible investing in the personal development plans for various team members. Further details are available in the "Integration of Sustainability Risk into Remuneration (Article 5 SFDR)".

[4] As of 1st January, 2023.

Policy on Integrating ESG and Sustainability Risk into Investment Research

We believe ESG factors, which we consider to include "Sustainability Factors" as defined by Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation or "SFDR")[5], are becoming increasingly material drivers of business risk and opportunity due to tightening regulations, changing consumer preferences, and the need for greater resource efficiency among other reasons. We therefore consider ESG analysis to be a useful lens through which our investment team can analyze a company alongside more traditional financial factors, in order to better identify, monitor and manage potential "Sustainability Risk" (as defined by SFDR)[6] and broader investment risks and opportunities.

- Muzinich defines ESG integration as the explicit consideration of ESG data alongside commonly considered financial data, with the aim of informing investment research and decision making.
- Our investment teams, across the various sub-asset classes of credit that we manage, seek to consider and integrate material ESG factors into their research, investment decisions, and ongoing monitoring of our investments in order to identify and, where possible, manage and mitigate the impact of potential Sustainability Risk.
- We conduct our own ESG research and partner with independent ESG data providers to ensure investment decisions are informed by comprehensive and reliable data where available.
- We are committed, subject to the availability of data, to producing scoring on the ESG attributes of public and private entities in which we invest and to tailor our scoring methodology to the asset classes, industries, and investment vehicles in which we invest.
- We strive to continually improve the coverage of our ESG research and integration process by engaging issuers and independent data providers to address gaps in ESG disclosures and research coverage.
- We commit to periodically review critical ESG services and external data providers to ensure we source high-quality ESG data across the broadest possible range of entities we invest in.
- We are committed to being transparent about how we score entities on their ESG attributes and how our ESG research impacts investment decision making, whether that leads to changes in analyst recommendations, exclusion, engagement activity or otherwise, and to sharing details of our ESG scoring methodology with investors.

Assessing and managing Sustainability Risk

We believe Sustainability Risk can have a material impact on the profitability, liquidity, financial profile and reputation of companies we might invest in, and ultimately on the risk and return of a financial product.

As an investor in corporate credit, one of our primary concerns is to identify and, where possible, manage and mitigate the impact of Sustainability Risk on the returns of our financial products through investment due diligence or research, asset allocation, portfolio management, restrictions or exclusions and ongoing monitoring and engagement of entities we invest in. We seek to assess sustainability issues and potential materiality on a case-by-case basis based on available ESG data. Outside of the specific industry- or conduct-based exclusion policies described in the "Product-specific ESG Policies of Muzinich-branded Funds" document, we do not typically follow an approach whereby ESG metrics necessitate buy, sell or weighting decisions on investments.

[5] Sustainability Factors are defined in SFDR as "environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters".

[6] Sustainability Risk is defined as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

Information to identity and assess Sustainability Risk

As part of Muzinich's ESG research and scoring procedures, we consider a number of different types of ESG information including, but not limited to the following (which may be obtained directly from the issuer, or via our own- or third-party research):

- Individual (raw) ESG metrics and quantitative data which may be considered drivers of risk and opportunity;
- Information on issuer involvement in controversies relating to serious human and labor rights abuses; environmental harm, or business integrity failures (e.g., fraud, tax evasion); and
- Information on issuer involvement in industries which may be considered to be controversial (e.g., weapons or tobacco).

Our analysts are not required to consider a prescriptive or exhaustive list of ESG factors when conducting ESG analysis or creating ESG scores. Instead, they aim to identify the issues which they consider to be most material depending on an individual company's regional, sectoral, jurisdictional, social and environmental context. There are, however, certain ESG factors which may exacerbate the potential for a Sustainability Risk to materialize. These factors may be specific to certain industries or applicable to several sectors.

Examples of ESG factors which may be considered as part of our research and ongoing monitoring process, and which are included in our proprietary ESG scoring methodology, are provided below in Figure 1.

Figure 1: Examples of ESG factors which may be considered or scored as part of our integrated research process.[7]

Environmental Factors	Social Factors	Governance Factors
Biodiversity impact management	Access to medicine program	Animal testing policy
Climate risk management	Advertising ethics policy	Audit program
Deforestation program	Collective bargaining agreements	Board diversity
Emergency response program	Community involvement programs	Board independence
Environmental management system	Contractor fatalities	Bribery and corruption policy
Green buildings investments	Contractor safety program	Business ethics program
Green logistics programs	Customer eco-efficiency programs	Climate governance
Green procurement policy	Discrimination policy	Clinical trial standards
Greenhouse gas emissions	Diversity programs	Conflict minerals policy
Hazardous waste management	Drug promotion standards	Cybersecurity program
Non-CO2 air emissions programs	Employee fatality rate	Data privacy and security policy
Oil spill disclosure and performance	Employee training	ESG governance
Product eco-design	Employee turnover rate	ESG transparency
Product stewardship programs	Financial inclusion	Global compact signatory
Real estate life cycle assessment	Freedom of association policy	Lobbying and political expenses
Recycled material use	Gender pay disclosure	Money laundering policy
Renewable energy use	Gender pay equality program	Political involvement policy
Share of green buildings	Health and safety management	Quality Management Systems
Solid waste management	Human Capital Development	Responsible Investment Policy
Sustainable agriculture programs	Human rights policy	Responsible product offering
Sustainable financial initiatives	Lost time injury rate trends	Tax practices

[7] Source: Muzinich & Co., as of 30 November 2022.
Provided for illustrative and example purposes only, not necessarily considered for all investments or all-inclusive.

Sustainable products and services	Media ethics program	Underwriting standards
Sustainable sourcing policy	Occupier satisfaction surveys	UNEPFI signatory
Tailings management and standards	Product and service safety program	Verification of ESG reporting
Water intensity	Responsible marketing policy	Whistleblower Programs
Water management programs	Working hours policy	Supply chain management policy
Water risk management		

Sourcing ESG data

The process of gathering and processing ESG data is specialized and resource intensive. Muzinich analysts collect financial and non-financial information as part of their research process but we have also partnered with independent ESG data providers to source ESG data including raw ESG metrics; ESG scores and rankings; involvement in controversial industries, or business conduct issues; greenhouse gas emissions data; climate risk data; and other data required for regulatory disclosures. We may also source data from government and non-governmental organisations, academic sources and other publicly available sources.

To assess issuers of public securities, Muzinich primarily sources ESG data from Sustainalytics and Institutional Shareholder Services (“ISS ESG”).

We are committed to reviewing our data sources at least every two years to ensure we are able to source high quality relevant data in a cost-effective manner. Members of our ESG Integration Group suggest and review possible data provider options and certain members of Muzinich’s board of directors make final decisions to partner with those providers. Among our considerations for choosing ESG data providers are the accuracy, timeliness, coverage, and quality of insight they bring; the efficiency with which we can process the data; and the general user-friendliness of the data platforms provided.

Proprietary ESG scoring methodologies for public and private issuers

Muzinich has developed various proprietary ESG scoring methodologies for public issuers, leveraged loan issuers, private corporates and aviation leasing. These were developed through collaboration of our investment teams and our ESG Integration Group members to ensure those methodologies are useable, produce meaningful results to enhance their understanding of issuers they research, and help them to distinguish between good and poor ESG management for research and investment purposes. Details of the scoring methodologies are summarized below and further information is available on request.

<u>(i) ESG scoring methodology for public issuers (liquid securities including bonds and corporate loans)</u>

Muzinich analysts have selected ESG metrics which they consider most important at the sector level and apply weights to associated scores which are normalized on a 0-5 scale. The ESG metrics are sourced via primary research or from external data providers as raw or processed data. Analysts aim to fill data gaps from publicly available information or engagement with companies. The methodology combines an ESG company score with a separate climate risk score.

In the final stage of the scoring process the analyst can adjust the initial score up or down based on factors including expectations of near-term ESG improvements or deteriorations, recent engagement outcomes, or discrepancies with third party data relating to the target company.

Muzinich’s ESG scores will be continuously monitored and updated for new information as analysts cycle through assessments of companies within their research universe. Muzinich’s ESG Integration Group members conduct periodic spot checks on aspects such as data quality, materiality weighting, and our analysts’ adjustments. Data from independent ESG data providers is automatically fed into Muzinich’s IT systems on a monthly basis to ensure it is as current as possible.

We have invested in resources and expertise to be able to integrate our two main independent ESG data sources into our research, trade restrictions, investment monitoring and reporting platforms. This will facilitate further ESG integration for our investment team and ESG reporting at the investment product level as part of monthly reports or annual financial statements from early 2023 onwards.

In 2023 we will roll out our proprietary ESG scores alongside certain third party ESG metrics in the ESG scorecards that appear in our issuer research templates. Analysts are also expected to produce an ESG writeup alongside these scorecards to provide more details on their view of an issuer's management of ESG factors and risks.

<u>(ii) ESG scoring methodology for leveraged loan issuers</u>
Muzinich may score leveraged loan issuers using either our public debt ESG scoring methodology where sufficient data is available, or a dedicated loans methodology. The loans methodology leverages data from a different ESG data provider and overlays the industry-specific weighting applied in our public debt scores to produce a score on the same scale of 0-5. This ultimately allows us to significantly increase the coverage of our research and has been made possible through sharing of ESG information on privately held companies between loan investors and an independent data provider.

<u>(iii) ESG scoring methodology for private corporates</u>
Muzinich's Private Debt team, with support from our ESG Integration Group, has developed a proprietary ESG scoring methodology, the "Private Debt ESG Scorecard", to integrate ESG assessments into the investment committee discussions and ongoing annual monitoring of our private debt investments. The Private Debt ESG Scorecard comprises the following ten ESG factors against which an investment is scored:

1) The ESG credentials of the investee company's beneficial owners e.g. evidence of dedicated ESG-related policies, management function(s) and resources and oversight of ESG
2) ESG management, transparency, accountability
3) Evidence of bribery and/or corruption
4) Lack of risk management
5) Management of climate change impacts
6) Planned natural resource use
7) Evidence of environmental degradation
8) Employee engagement and welfare
9) Stakeholder risks, such as company/product boycotts
10) Diversity and inclusion in HR and/or hiring practices

For each ESG factor, an investment is assigned a score of zero to five, giving a potential total score of 50 out of 50 which may then be scaled down to a 0 to 5 score. The ESG scores are included alongside a summary of ESG strengths, weaknesses, opportunities and threats in the final investment memorandums which are presented to private debt fund investment committees prior to final investment decisions and updated for monitoring annually.

<u>(iv) ESG scoring methodology for aviation leasing</u>
Muzinich's Aviation team, with support from our ESG Integration Group, has developed an ESG scoring methodology, the "Aviation ESG Rating", to integrate ESG assessments into the investment committee discussions prior to making investments.

The Aviation ESG Rating is broken down into two main components and various sub-components and weighted as follows:

- Asset rating (50%)
  - Aircraft type (35%)
  - Aircraft age (15%)
- Airline
  - Environmental policy (5%)
  - Fleet age (10%)
  - Aircraft utilization (10%)
  - Fleet type (15%)
  - Sustainability policy – social (5%)
  - Board governance (5%)

Our private debt and aviation ESG scores are produced from sources including, but not limited to: (i) conversations with management; (ii) notes to the investee company's financial statement; and, if available, (iii) the investee company's sustainability statement.[8]

Besides Muzinich's proprietary ESG scoring methodologies, Muzinich also uses ESG scores derived from independent ESG data providers including

- An ESG controversy score which measures the severity of sustainability related incidents related to an issuer and which are rated from 1 to 5 where 5 represents an event which has a severe impact, and 1 represents a low impact on the environment or society.
- Absolute ESG scores which are measured on a 0-70 scale ranging from "negligible" ESG risk to "severe" ESG risk.

ESG risk rankings or percentiles which ranks issuer's by their ESG score relative to industry peers or the broader research universe.

We may use one or more of these scoring methodologies as guidelines or binding criteria (e.g., best-in-class scoring thresholds) in our investment strategies as noted in "Product Specific ESG Policies of Muzinich-branded Funds".

[8] Further details on Muzinich's proprietary scoring methodologies are available on request.

Policy on Engaging Issuers on ESG Matters

As corporate debt investors, we do not typically hold rights to vote on a company's management practices. Nevertheless, as a lender of capital for critical business expenditures and growth, we can express opinions about, and exert a certain amount of influence over, the businesses that we lend to. We believe engagement with issuers forms a critical part of our investment process and is generally a more powerful tool with which to influence ESG management than outright divestment from an entity. We therefore seek to engage with investee companies with the aim of improving ESG management and reducing adverse environmental or social impacts, except in cases where we consider that engagement is unlikely to result in any meaningful change. In such circumstances, we may ultimately decide to avoid an investment, to reduce our position, or divest from a company entirely.

We believe it is important to use this influence and engage with companies in our investment universe to actively identify, manage, and mitigate potential Sustainability Risk and/or minimize other negative environmental or social impacts.

- Muzinich is committed to using engagement as a key responsible investment tool to manage material ESG risks and PAIs relating to the companies we invest in.
- We are committed to participating in collaborative engagements either as a signatory to high-level engagement letters, or as a participant or leader in investor collaborations to engage issuers.
- We are committed to transparency around our engagement procedures, our priority engagement themes, and information about the progress of our engagement activities.
- We are committed to engaging with public policy makers as the primary drivers of sustainability-related policy for both corporates, and financial market participants.
- We are committed to engaging investors to educate and better understand their requirements relating to ESG.
- We are committed, where the option exists, to exercising voting rights in favor of corporate initiatives and actions which are in the best interests of issuers, the environment and society.

Implementing ESG Engagement

Muzinich's investment team members are responsible for engaging companies within their research coverage with support from our ESG Integration Group. Engagement activity is either driven by bottom up factors relating to the specific circumstances of an individual company, or by top down themes such as climate change, impacts on biodiversity, or diversity and inclusion issues. Most commonly, Muzinich analysts engage companies to seek better transparency around a specific ESG issue (such as potential Sustainability Risk or performance in relation to particular PAIs) to support better decision making. Ensuring ESG topics are discussed in meetings with company management also raises the awareness of these topics.

We typically prioritize engagements based on criteria such as: severity of the ESG issue or potential Sustainability Risk, investment exposure, exposure to one of Muzinich's priority ESG themes, our access to management, and our expectations of a successful outcome. Our ESG priorities are determined by our ESG Advisory Group and typically relate to fundamental long-term ESG risks such as climate change, corporate disclosures, fraud, corruption, and human rights-related issues such as modern slavery. We believe it is important to be targeted with engagement activity as resource constraints will otherwise limit the effectiveness of our interactions with issuers. We typically engage companies during face-to-face meetings or phone calls, or via discussions with intermediaries or underwriters, and during investor events or company road shows.

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

Muzinich maintains an ESG Engagement Framework (the "Framework") which is accessible to all staff on our company intranet for the purposes of recording and sharing information on ESG engagement activity. The Framework includes information such as: names of target companies and key representatives; relevant ESG engagement themes; progress of the engagement activity; specific ESG targets or objectives set (e.g., decarbonisation commitments); and notable engagement outcomes.

For less liquid investments, such as private debt and other alternative credit strategies, where borrowers may have a greater or lesser incentive to engage with lenders on ESG issues, a different approach is required. A key determining factor here is the level of investor concentration. Engagements as part of club loans involving multiple investors with varied interests are generally less effective than engagements we may conduct as part of a direct, one-to-one lending deal.

While every engagement will take a slightly different course, the typical progression for one of our engagements will run as follows:

1) Muzinich identifies or learns of an ESG issue that is specific to one company (such as a potential Sustainability Risk or adverse sustainability impact), or identifies a company with high levels of exposure to one of our priority ESG themes (e.g., climate change or biodiversity).
2) A Muzinich analyst (alongside our ESG Integration Group) will research the ESG issue, past impacts or potential risks relating to the target company, and possible solutions.
3) The analyst contacts the company to start an initial engagement and gather further details of the ESG issue with the target company.
4) During one or more follow-up meetings the analysts may further define the engagement objectives and set specific KPIs for the target company (e.g., publishing a target to reduce carbon emissions).
5) The analyst will review progress (e.g., against the KPIs) to determine next steps and feed back in their research to the investment team.
6) On reaching a pre-determined deadline or KPI, the analyst will determine whether they are satisfied with the outcome and decide whether further engagement (and KPI setting) is required.
7) If we decide that an engagement has been unsuccessful or that it is unlikely to be within the defined time period we may ultimately decide to avoid, reduce our position or divest from the company's securities entirely pending further review.

Policy on Climate Change

We believe climate change poses one of the single greatest risks to the stability of the global economy but will also be a major driver of future business and investment opportunities. We believe investors have a critical role to play in identifying, managing and mitigating physical and transitional climate risks relating to their investment decisions.

We note that significant uncertainty remains around climate tipping points, government policy relating to climate change, the social impacts of climate change, and corporate climate commitments and emissions data among other critical items. While we are mindful of the fact that we don't yet have the answer to every climate-related question, we are in no doubt about the urgency of climate action and the need for all investors to directly address climate change.

- Muzinich recognizes the importance and urgency of the requirements inherent in the Paris Agreement.
- We have committed to the Net Zero Asset Managers Initiative and as such commit to publishing time-bound targets for decarbonizing our portfolios. Ultimately, we have committed to align 100% of our assets under management with a pathway to net zero by 2050 at the latest.[9]
- We seek to provide investors with comprehensive data on the climate risks and impacts of their investments through regular carbon research and reporting.
- We exclude companies which derive significant revenues from either mining or producing energy from thermal coal across all Muzinich-branded funds.[10]
- We commit to developing investment products which proactively support the transition to a low carbon economy by both reducing contributions to carbon emissions and supporting climate solutions.
- We commit to integrating physical and transitional climate risks into our research process to ensure our portfolios are climate resilient.
- While we adhere to the concepts of climate transition and corporate engagement, we may ultimately exclude certain industries and businesses which we consider conflict with the goals of the Paris Agreement. For details of such exclusions, see our "Product-specific ESG Policies of Muzinich-branded Funds".
- Wherever it is practical to do so, Muzinich will pursue a climate approach which considers Scope 1, 2 and 3 carbon emissions and will seek to use science-based methodologies and targets to inform our climate objectives.
- Muzinich publicly supports the Task Force on Climate-related Financial Disclosures ("TCFD") and commits to producing relevant disclosures in line with this initiative by the end of 2023.
- Muzinich will allocate adequate human and informational resources, including a dedicated Climate Working Group, to implement this policy.

Implementing Our Climate Change Policy

Climate governance and disclosures at Muzinich

Muzinich's Co-Head of Public Markets and Board member, Tatjana Greil-Castro, is responsible for overseeing the Firm's "Policy on Climate Change" and related procedures. An internal Climate Working Group will implement a climate action plan, including working with our investment team to set portfolio decarbonisation targets and disclosing those to investors on an ongoing basis.

Identifying and managing climate-related investment risks

Muzinich has engaged an independent ESG data provider to support our efforts to measure and manage carbon emissions and climate-related risks. We offer periodic carbon and climate reporting on all of Muzinich's liquid mutual funds and certain separately

[9] Further details of Muzinich's Net Zero Asset Managers Initiative commitment will be published by October 2023.

[10] Further details are available in the "Product-specific ESG Policies of Muzinich-branded Funds"

managed accounts. We have engaged a separate data provider to model carbon emissions of certain Muzinich private debt products. Our investment teams and data providers are working to increase their research coverage of entities in our investable universe by building further resource and engaging issuers on climate disclosures.

Muzinich is a signatory to Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change[11]. Where relevant to our holdings, we use the Climate Action 100+ Net Zero Company Benchmark to monitor progress, inform engagement strategies and decisions, and assess the alignment of company decarbonization strategies with the goals of the Paris Agreement. We also seek to leverage freely available information and tools provided by initiatives including the Transition Pathways Initiative ("TPI")[12] and the Science Based Targets Initiative ("SBTi")[13], which provide more forward-looking insights into corporate climate trajectories to complement existing emissions and climate risk data.

Muzinich's ESG and investment teams aim to develop a customized corporate net zero assessment by the end of 2023 to further inform investment decisions and align our portfolios with a net zero trajectory by 2050 (i.e., Paris Aligned). We will also conduct scenario analysis to consider potential risks and opportunities associated with a 1.5 degrees centigrade temperature rise based on specific sector pathways and public policies aligned with net zero. We will also endeavor to consider Scopes 1, 2 and 3 corporate emissions, where reported by companies or modelled by our data providers.

Corporate and public policy climate engagement

Key themes linked to corporate climate engagement include, among other items, corporate climate governance, transparency and accountability; carbon emissions reporting; setting (science-based) emissions trajectories towards net zero; use of renewable energy; involvement in climate-related lobbying practices; and reporting and accounting for climate-related risks. Muzinich will take a targeted approach to engaging companies based on issuers' carbon intensity, sector pathways and other factors.

Muzinich conducts engagements directly with companies and as part of collaborative initiatives, including the Climate Action 100+ program. We also seek to engage policymakers either via investment industry initiatives, direct meetings with financial policy groups, or by participating in collaborative investor letter and statements to policy makers.

Allocating capital to climate solutions

Addressing climate change requires both reducing negative impacts of our investments and allocating capital to climate solutions such as resource efficiency, low carbon energy, transportation, real estate and agricultural models among other industries.

Green bonds and sustainability-linked bonds, loans and similar instruments help investors to allocate capital to specific climate-related or environmental projects, or towards the attainment of issuer-level targets. Muzinich holds such instruments but considers that not all self-labelled instruments support meaningful climate action and not all climate solution investment opportunities are issued as such instruments. We therefore seek to distinguish between the climate "quality" of such instruments by analyzing relevant legal documentation, use of proceeds, and ambitions of related targets, among other information.

As outlined in our "Policy on Engaging Issuers on ESG Matters", we believe that engagement for change can be a more powerful investment tool than outright divestment which in many cases simply shifts carbon emissions to another investor's financed emissions. Nevertheless, we recognize that certain industries and issuers will struggle to transition their business models within broadly accepted transition timelines and those which are locking in long term emissions (e.g., by developing new fossil fuel assets) are unlikely to be responsive to investor engagement.

[11] See: https://www.climateaction100.org/
[12] See: https://www.transitionpathwayinitiative.org/
[13] See: https://sciencebasedtargets.org/

Product-level carbon intensity targets and thermal coal exclusions

The vast majority of Muzinich-branded UCITS funds have in place product-level ESG policies[14] which aim to reduce the relative carbon intensity of the respective fund's portfolios. Specifically, all Muzinich UCITS funds that disclose under Article 8 SFDR must maintain a weighted average carbon intensity ("WACI") at least 10% lower than its reference index chosen for ESG comparison purposes.

As outlined in our "Product-specific ESG Policies of Muzinich-branded Funds", all Muzinich Article 8 financial products exclude companies which derive more than 10% of their revenues from either thermal coal mining or energy production from thermal coal. As explained in the exclusion policy, certain Muzinich Article 8 funds may hold companies which derive up to 30% of their revenue from such activities but have published credible commitments to reduce their exposure to coal below the 10% threshold before 2025. Certain Muzinich public and private debt products also exclude conventional and non-conventional forms of oil and gas. Certain Muzinich funds and separately managed accounts apply additional exclusions for conventional and non-conventional forms of oil and gas and other heavily carbon intensive industries.

[14] Certain Muzinich UCITS funds which fall outside of this policy include funds of one and target dated funds. These represent less than 10% of all Muzinich AuM managed in UCITS structures as at the date of this policy. For further details of the product-level ESG policies, please refer to the "Product-specific ESG Policies of Muzinich-branded Funds".

Product-specific ESG Policies of Muzinich-branded Funds

Muzinich considers certain companies or entities to be ineligible for investment on the basis that we, and/or our investors consider the industries they are involved in, the products or services they offer, or their conduct is either fundamentally unsustainable, contrary to our values, or carries outsized reputational risks which may ultimately harm investment value.

- Muzinich is committed to offering a broad range of robust and customized screening solutions to investors in separately managed accounts.
- Muzinich commits to applying exclusion criteria to Muzinich-branded mutual funds relating to certain industries, practices or corporate behavior which we consider to be fundamentally unsustainable.
- Muzinich commits to ensuring robust governance and procedures to implement industry and conduct-based exclusion criteria including ongoing periodic monitoring for passive breaches and investor reporting and to remedy such breaches within satisfactory timelines.
- Muzinich commits to transparency relating to our screening and exclusion policies, practices and outcomes.

Implementing Screening, Exclusions and Monitoring

All of Muzinich's European-domiciled comingled funds that disclose under Article 8 SFDR financial products, which account for more than 80% of our Muzinich-branded UCITS AuM[15], apply industry exclusions and carbon efficiency targets based on their respective ESG policies as described below. We can apply negative screens or exclusions to public and private market strategies in line with investors' expectations and our own views on what we consider to be an acceptable level of reputational, financial, and/or sustainability risk. Muzinich has the capabilities and resources to screen for a range of industry or norms-based criteria with different revenue or output-based thresholds.

Muzinich's ESG Integration Group and risk team work together to implement ESG exclusion policies with pre-trade checks. We also monitor ongoing compliance with ESG exclusion policies at least once per quarter for all Muzinich-branded funds, and as frequently as monthly where required by relevant ESG policies for separately managed accounts. Information used to screen and exclude companies is sourced from our ESG data providers or, more in the case of privately held issuers, directly by our research team from issuers themselves. For publicly traded securities, ESG screens are programmed into our trade compliance systems by our risk team.

Strategies with explicit exclusion policies are also reviewed periodically by our Portfolio Risk Analytics Committee ("PRAC") to ensure no breaches have occurred. In cases where negative screening rules for public debt funds are passively breached, our policy typically requires the relevant portfolio manager to initiate a sale request at their earliest convenience and within no more than 30 days of learning of the breach, unless a qualified extension is granted by the PRAC which, in its view, is in the best interests of shareholders. We note that certain Muzinich funds or separately managed accounts have policies to sell related assets within shorter or longer timelines than those stated above[16].

In considering whether to exclude a company, Muzinich will review each corporate entity structure in its own right and will apply its own judgement as to what level within a capital structure and which specific entity or entities should be excluded. The Firm's ESG Eligibility Committee may review certain cases where a determination is not immediately clear. Where companies are privately held and/or industry involvement data is not publicly available to determine the extent of a company's involvement in the excluded industries, our ESG Integration Group will work with a relevant industry analyst and, where necessary, will

[15] As at the time of this Policy.

[16] Please ask your local sales representative or Muzinich's ESG Integration Group for more details on product-specific policies.

engage a company to clarify whether and how it might be involved in an excluded industry.

We may also take into consideration whether one of our analysts has recently engaged an entity and has reason to believe they may be likely to adjust its practices so as to comply with the relevant portfolio exclusion criteria – for example, adjusting its energy mix to be less fossil fuel intensive or remediating historic incidents relating to a human rights or labor issues. We may also consider forward-looking aspects such as an issuer's likely future trajectories on carbon emissions and other important ESG factors.

Muzinich applies a range of different ESG policies to individual products including mutual funds and separately managed accounts. The policies and processes outlined in this section apply to Muzinich's European-domiciled comingled funds which disclose under Article 8 SFDR financial products. Figures 2 and 3 below summarize the ESG policies for our public debt and private debt funds respectively. Detailed information on the specific environmental and/or social characteristics or sustainable investment objectives of these funds is also available in the pre-contractual and periodic disclosures of the relevant fund.

We note that:

- All Muzinich-branded mutual funds are subject to Muzinich's policy on avoiding investing in companies involved in controversial weapons.
- All Muzinich-branded funds which disclose under Article 8 SFDR are subject to Muzinich's policy on avoiding investing in companies involved in producing tobacco, mining thermal coal, or producing energy using coal.
- All Muzinich-branded funds or separately managed accounts are subject to Muzinich's broader ESG policies, such as the integration of sustainability or ESG risks into our investment process and corporate ESG engagement, with the exception of our Business Development Companies ("BDC") strategies and US private debt strategy.

Core Industry Exclusion Policy for Muzinich-branded Funds disclosing under Article 8 SFDR

All Muzinich-branded mutual funds disclosing under Article 8 SFDR exclude, at the minimum, controversial weapons, tobacco companies, and companies involved in thermal coal mining and/or production of energy from coal.

Controversial weapons

Muzinich supports conventions which aim to ban or restrict certain controversial weapons because of their legal status and/or because their normal use violates fundamental humanitarian principles. Through the application of this policy, Muzinich avoids investments in companies which it believes to be 'involved in' the production, trade and/or use of weapons referred to in the following conventions or treaties:

- *Anti-personnel mines:* as covered by the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction. The Anti-Personnel Landmines Convention entered into force on September 18, 1997.
- *Biological Weapons:* as covered by the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction. The Biological Weapons Convention entered into force on March 26, 1975.
- *Chemical Weapons:* as covered by the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction. The Chemical Weapons Convention entered into force on April 29, 1997.
- *Cluster Munitions:* as covered by the Convention on Cluster Munitions. The Convention entered into force on August 1, 2010.
- *Certain Conventional Weapons*: as covered by the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects. The convention includes three initial annexed protocols and subsequent additions relating to non-detectable fragments, use of mines, booby-traps and other devices, use

of incendiary weapons, blinding laser weapons and explosive remnants of war. The convention, also known as the Inhumane Weapons Convention, was initially adopted on October 10, 1980.

- *Nuclear Weapons:* as covered by the Treaty on the Prohibition of Nuclear Weapons ("TPNW") and the Treaty on the Non-Proliferation of Nuclear Weapons ("NPT"). We note that unlike other types of weapons referenced herein, there is no concluded United Nations convention relating to the prohibition of participation in nuclear weapons activities. The TPNW entered into force on January 22, 2021, and the NPT became effective on March 5, 1970, and was extended indefinitely on May 11, 1995.

For the purpose of our Controversial Weapons Policy, Muzinich defines 'involvement' as deriving more than 1% of revenues from the manufacture and assembly of weapons systems including components considered to be tailor-made and essential for the lethal use of the weapon; research and development work relating to a core weapons system; maintenance and service of a core weapons system; and the sales or trading of the core weapons system.

The policy does <u>not</u> apply to the following investments, which may be held by Muzinich products (unless otherwise specified in the relevant product documents):

- indirect or incidental exposures via investments in banks or insurers (that may have exposure via their balance sheets or policies);
- Exchange Traded Funds ("ETFs");
- derivatives which involve single or groups of assets;
- companies affiliated with, but not controlled by, exposed companies; or
- physical assets (or to instruments backed by physical assets or the leasing/financing of such assets) such as civilian aircraft, which may be manufactured by companies whose securities we may choose to exclude on the grounds of their involvement in the production of controversial weapons.

Tobacco

Muzinich mutual funds that disclose under Article 8 SFDR will seek to avoid investments in entities that derive more than 10% of their revenues from manufacturing tobacco products. Certain funds may apply a lower than 10% revenue threshold and may also exclude the retailing of tobacco products, as shown in Figure 2.

Thermal coal

Muzinich mutual funds disclosing under Article 8 SFDR will seek to avoid investments in entities that derive more than 10% of their revenues from thermal coal mining or energy production from thermal coal.

Certain Muzinich Article 8 products may invest in entities that derive up to 30% of revenues from thermal coal provided the entity has published credible commitments to reduce their exposure to below the 10% threshold before the end of 2025 by decommissioning coal-related assets. See Figure 2 for details on specific funds.

Additional Industry Exclusions for Certain Muzinich-branded Funds disclosing under Article 8 SFDR

In addition to the industry exclusions listed above, certain Muzinich-branded public and private debt funds apply the following additional industry exclusions, as shown in Figure 2.[17]

- *Adult entertainment:* Muzinich will seek to avoid investments in entities that derive more than 10% of their revenues from the production or distribution of adult entertainment.
- *Alcoholic beverages:* Muzinich will seek to avoid investments in entities that derive more than 10% of their revenues from the production or distribution of alcoholic beverages.
- *Cannabis:* Muzinich will seek to avoid investment in entities that derive more than 10% of their

[17] The percentage figures shown are for explanatory purposes only and may vary for different funds as shown in Figure 2.

revenues from the production or distribution of cannabis and cannabis-related products.

- *Gambling:* Muzinich will seek to avoid investments in entities that derive more than 10% of their revenues from commercial gambling related services or customized equipment designed for such purposes.
- *Conventional weapons:* Muzinich will seek to avoid investments in entities that derive more than 10% of their revenues from the production of conventional weapons.
- *Fur and leather:* Muzinich will seek to avoid investments in entities that derive more than 5% of their revenues from the production of fur or specialty leather goods.
- *Military contracting:* Muzinich will seek to avoid investments in entities that derive more than 5% of their revenues from military contracting.

Conduct-based Exclusion Policy for Muzinich Funds disclosing under Article 8 SFDR

Muzinich will avoid investments which it deems to have breached, or to be at severe risk of breaching, certain recognized international conventions, norms and/or standards relating to respect for human rights, labor relations, protection from severe environmental harm or incidents, and the avoidance of gross corruption and other business integrity failings, particularly where efforts to engage with the company have not resulted in a material change in practices within a reasonable time span.

Use of independent ESG and climate scores or metrics

The ESG policies of certain Muzinich mutual funds also include ESG scoring or carbon emissions related limits or thresholds. These are based on independent ESG data sources, primarily for public markets investments, and our Muzinich Private Debt ESG Due Diligence Scores for private debt investments. These are summarized below in Figure 1. Details of the specific ESG scoring methodology applied in Muzinich mutual funds can be found in the relevant product's pre-contractual and marketing materials.

Figure 2: ESG policies applied to Muzinich-branded Article 8 SFDR UCITS funds

Muzinich Product Name	Reference Index for comparing ESG measures	SFDR Article 6, 8 or 9	Does the product consider PAI factors?	Fund WACI at least "___"% below index	Maximum Sustainalytics ESG Risk Rating threshold	Minimum Sustainalytics ESG Industry Percentile	Maximum portfolio weighted average ESG Risk Rating	Minimum Sustainalytics portfolio research coverage	Conduct exclusions (e.g., UNGC non-compliance)	Adult Entertainment	Alcoholic Beverages	Controversial Weapons	Fur & Leather	Gambling	Military Contracting	Conventional Weapons, Weapons & Ammunition	Non-conventional Oil & Gas	Nuclear Power	Oil & Gas	Thermal Coal	Tobacco
Muzinich Americayield Fund	ICE BofA BB-B US Non-Financial Cash Pay High Yield Constrained	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Asia Credit Opportunities Fund	ICE BofA Asian Dollar	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Dynamic Credit Income Fund	70% ICE BofA BB-B Global High Yield Index & 30% ICE BofA BBB Global Corporate	8	Yes	10%	-	-	-	-	Yes	pr, ds >10%	-	pr, sc, ss	-	op, rs >10%	-	-	-	-	-	ex, eng >10%	pr, re >10%
Muzinich Emerging Market Corporate Debt Fund	ICE BofA US Emerging Markets Liquid Corporate Plus	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Emerging Market Short Duration Fund	ICE BofA US Emerging Markets Liquid Corporate Plus Index maximum 3 year DTW	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Enhanced Yield Short Term Fund	60% ICE BofA 1-3 Year Global Corporate & 40% 1-3 Year BB-B Global High Yield Non-Financial Constrained	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich European Credit Alpha Fund	ICE BofA BB-B Euro High Yield Constrained	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%

Figure 2 continued…

Product Name	Reference Index for comparing ESG measures	SFDR Article 6, 8 or 9	Does the product consider PAI factors?	Fund WACI at least "____"% below index	Maximum Sustainalytics ESG Risk Rating threshold	Minimum Sustainalytics ESG Industry Percentile	Maximum portfolio weighted average ESG Risk Rating	Minimum Sustainalytics portfolio research coverage	Conduct exclusions (e.g., UNGC non-compliance)	Adult Entertainment	Alcoholic Beverages	Controversial Weapons	Fur & Leather	Gambling	Military Contracting	Conventional Weapons, Weapons & Ammunition	Non-conventional Oil & Gas	Nuclear Power	Oil & Gas	Thermal Coal	Tobacco
Muzinich Europeyield Fund	ICE BofA BB-B European Currency Non-Financial High Yield Constrained	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Global Fixed Maturity 2027 Fund	60% ICE BofA 1-3 Year Global Corporate & 40% 1-3 Year BB-B Global High Yield Non-Financial Constrained	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Global High Yield Low Carbon Credit Fund	ICE BofA Global High Yield Constrained	8	Yes	40%	40	-	30	90%	Yes	-	-	pr, sc, ss	-	-	-	-	ex >10%	-	ex >10%	ex, eng >10%*	pr, re >10%
Muzinich Global Short Duration Investment Grade Fund	ICE BofA 1-3 Year Global Corporate	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Global Tactical Credit Fund	ICE BofA Global Corporate & High Yield	8	Yes	10%	-	-	-	-	Yes	pr, ds >10%	-	pr, sc, ss	-	op, rs >10%	-	-	-	-	-	ex, eng >10%	pr, re >10%
LongShortCredit-Yield Fund	ICE BofA US Cash Pay High Yield	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich ShortDurationHigh-Yield Fund	ICE BofA BB-B US Non-Financial Cash Pay High Yield Constrained	8	Yes	10%	-	-	-	-	Yes	-	-	pr, sc, ss	-	-	-	-	-	-	-	ex, eng >10%*	pr, re >10%
Muzinich Sustainable Credit Fund	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged EUR	8	Yes	10%	-	50th	-	-	Yes	pr, ds >5%	pr, ds >5%	pr, sc, ss	pr, sc >5%	op, rs, se >5%	pr, sc, re >5%	pr, sc, re >5%	ex >5%	ex >5%	eng, rs >5%	ex, eng >5%	pr, re >5%

	Code	Type of company product involvement
Muzinich applies industry exclusion criteria for a range of different types of involvement such as manufacturing or distribution. The following codes are used to describe the different types of industry involvement that we exclude as part of our Article 8 fund ESG policies. Further details can be provided on request.	ds	distribution (e.g., oil and gas transport)
	eng	energy production (e.g., coal-fired power)
	ex	extraction (e.g., shale gas extraction)
	mp	medicinal purposes (e.g., cannabis production)
	ms	midstream (e.g., oil refining)
	op	operations (e.g., gambling facilities)
	pr	production (e.g., tobacco manufacturing)
	re	retail (e.g., alcohol retail)
	rp	recreational purposes (e.g., cannabis production)
	rs	related services (e.g., nuclear weapons maintenance)
	sc	supply chain (e.g., weapons component manufacture)
	se	specialized equipment (e.g., gambling machines)
	ss	supporting services (e.g., nuclear fuel disposal)

Figure 3: ESG policies applied to Muzinich-branded Article 8 leveraged loans funds

Muzinich Product Name	Reference Index for comparing ESG measures	SFDR Article 6, 8 or 9	Does the product consider PAI factors?	Maximum of holdings with Loans ESG score <1 out of 5	Minimum holdings with Loans ESG score <2.5 out of 5	Minimum % ESG scoring coverage (by number or by weight)	Conduct exclusions (e.g., UNGC non-compliance)	Controversial Weapons	Thermal Coal	Tobacco
Muzinich Pan European Loans Fund	N/A	8	Yes	0%	60%	75%	Yes	pr, sc, ss	ex, eng	pr, re

Figure 3: ESG policies applied to Muzinich-branded Article 8 private debt funds

Muzinich Product Name	Reference Index for comparing ESG measures	SFDR Article 6, 8 or 9	Does the product consider PAI factors?	Maximum % holdings with Muzinich ESG score below 9	Maximum % holdings with Muzinich ESG score below 18	Other ESG score limits	Conduct exclusions (e.g., UNGC non-compliance)	Adult Entertainment	Alcoholic Beverages (distilled)	Asbestos Extraction	Cannabis	Controversial Weapons	Gambling	Human Embryonic Stell Cell and Fetal Tissue	Military Contracting, Conventional Weapons & Ammunition	Non-conventional Oil & Gas	Conventional Oil & Gas	Predatory Lending	Thermal Coal	Tobacco
Muzinich Pan European Private Debt II Fund	N/A	8	No	0%	10%	Max. 60% scoring <27	Yes	pr, ds	pr, ds	op	rp	pr, sc, ss	op, rs, se	mp, pr, rs	pr, sc, re	ex	ex	op	ex, eng	pr, re
Muzinich Pan European Private Debt III Fund	N/A	8	No	0%	10%	Max. 60% scoring <27	Yes	pr, ds	pr, ds	op	rp	pr, sc, ss	op, rs, se	mp, pr, rs	pr, sc, re	ex	ex	op	ex, eng	pr, re
Muzinich Asia Pacific Private Debt I Fund	N/A	8	No	0%	10%	Max. 50% scoring <25	Yes	pr, ds	pr, ds	-	-	pr, sc, ss	op	-	pr, sc, re	-	-	-	ex, eng	pr, re
Muzinich Diversified Enterprises Loan II Fund‡	N/A	8	No	0%	10%	Max. 50% scoring <25	Yes	pr, ds	-	-	-	pr, sc, ss	op, rs, se	mp, pr, rs	pr, sc, re	-	-	op	ex, eng	pr, re
Muzinich MLoan Fund	N/A	8	No	0%	10%	Max. 50% scoring <25	Yes	pr, ds	pr, ds	-	-	pr, sc, ss	op, rs, se	-	pr, sc, re	ex	ex	-	ex, eng	pr, re

Notes:

Thermal Coal

* The relevant fund may invest in entities which derive up to 30% of revenues from thermal coal mining or energy production from thermal coal, on the condition that the entities have published credible commitments to reduce their exposure to below the 10% threshold before the end of 2025, by decommissioning coal-related assets.

Due to the significant lack of publicly reported revenue breakdowns for excluded industries by privately held companies, Muzinich's private debt funds ESG policies do not specify percentage revenue thresholds for screening. Decisions on industry exclusions in Muzinich's private debt funds are made by the relevant Investment Committee based on research by our private debt deal team and exclusion-related decisions are made at their discretion. In instances where further clarification is needed our private deal teams may consult Muzinich's ESG staff and/or the ESG Eligibility Committee. Further details on Muzinich's or Sustainalytics' definitions and industry categorization are available on request.

Muzinich Diversified Enterprises Loan Fund II

‡ In addition to the exclusions shown above, the Muzinich Diversified Enterprises Loan Fund II excludes business which derive substantial revenues (as determined by the relevant Investment Committee) from:

- production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- any business relating to prostitution;
- production or trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora;
- production or use of or trade in hazardous materials such as radioactive materials (except for medical isotopes and materials for diagnostics and treatment in healthcare provision), unbounded asbestos fibres and products containing PCBs;
- cross-border trade in waste and waste products unless compliant with the Basel Convention and the underlying national and EU regulations but for the avoidance of doubt, use of waste as a fuel in district heating is not excluded;
- unsustainable fishing methods (i.e., drift net fishing in the marine environment using nets in excess of 2.5 km in length and blast fishing);
- production or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phaseouts or bans;
- destruction of critical habitats;
- production and distribution of racist, anti-democratic and/or neo-Nazi media;
- live animals for scientific and experimental purposes;
- ammunition and weapons, military/police equipment, infrastructure or correctional facilities, prisons;
- commercial concessions over, and logging on, tropical natural forest; conversion of natural forest into a plantation;
- purchase of logging equipment for use in tropical natural forests or high nature value forest in all regions; and activities that lead to clear cutting and/or degradation of tropical natural forests or high nature value forest;
- new palm oil plantations; and/or
- any business with political or religious content.

Muzinich's Voluntary Commitments and Support for ESG Initiatives

Muzinich participates in various collaborative industry groups to support the growth and depth of sustainable investment practices. These are listed below in chronological order of the date on which Muzinich joined the relevant initiative.

Initiative: UN-Supported Principles for Responsible Investment ("PRI")
Joined: 2010
Role/focus: Signatory/investor focused
About initiative: The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Visit: https://www.unpri.org/

Initiative: UK Women in Finance Charter
Joined: 2018
Role/focus: Signatory/business focused
About initiative: This is a commitment by the UK Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this Charter are pledging to focus on gender diversity in their business. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms. Visit: https://www.gov.uk/government/publications/women-in-finance-charter

Initiative: European Leveraged Finance Association ("ELFA")
Joined: 2019
Role/focus: Member/investor focused
About initiative: Muzinich is a founding member of the European Leveraged Finance Association (ELFA) and participates on ELFA's board. ELFA is a trade body acting as the voice of the investor community, which seeks a more transparent, efficient and resilient leveraged finance market. Muzinich participates in various committees including the ESG, Diversity and Inclusion, CLO Investor, Disclosure and Transparency, Engagement, Loan and Private Debt Committees. Visit: https://elfainvestors.com/

Initiative: Investment Company Institute ("ICI")
Joined: 2020
Role/focus: Member of the ICI's ESG Task Force /investor focused
About initiative: Muzinich is a member of the ICI's ESG Task Force. The ICI represents regulated funds globally. ICI's ESG Task Force is focused on engaging on global policymaking activity around issues related to ESG/sustainable investing including regulations on implementation of responsible investment and ESG disclosures by asset managers. Visit: https://www.ici.org/

Initiative: Climate Action 100+
Joined: 2020
Role/focus: Member/investor focused
About initiative: Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies targeted by this investor group include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition. Visit: https://www.climateaction100.org/

Initiative: Taskforce on Climate Related Financial Disclosures ("TCFD")
Joined: 2020
Role/focus: Supporter/business and investor focused
About initiative: The TCFD, created by the Financial Stability Board ("FSB"), provides a disclosure

framework for corporations to identify, monitor and manage climate risks to their business. The objective of the TCFD is to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The TCFD recommendations center around climate risk governance, risk management, metrics, and target setting. Visit: https://www.fsb-tcfd.org/

Initiative: PRI Statement on ESG in Credit Risk and Ratings
Joined: 2020
Role/focus: Signatory/investor focused
About initiative: By signing the PRI Statement on ESG in Credit Risk and Ratings, credit rating agencies and fixed income investors commit to incorporating ESG into credit ratings and analysis in a systematic and transparent way. To date, the statement is supported by more than 180 investors (with nearly US$40trn in collective AUM) and 27 credit rating agencies ("CRAs"). Visit: https://www.unpri.org/credit-risk-and-ratings/statement-on-esg-in-credit-risk-and-ratings-available-in-different-languages/77.article

Initiative: PRI Structured Finance Working Group
Joined: 2020
Role/focus: Member/investor focused
About initiative: The broad objectives of this initiative are to: advise PRI on its program to identify how ESG factors are considered when investors allocate capital to structured products or when these are originated; promote more systematic and transparent incorporation of ESG factors in investment decisions in structured products; oversee the various expert working groups PRI will set up to address ESG consideration in structured products; review and advise on material to be published as part of the PRI's structured finance program; and support outreach and awareness raising efforts for the program. Visit: https://www.unpri.org/signatory-resources/advisory-committees-and-working-groups/320.article

Initiative: Private Sector Voluntary Carbon Markets Taskforce
Joined: 2020
Role/focus: Supporter/investor focused
About initiative: Muzinich's Co-Head of Public Markets, Tatjana Greil Castro, participates in this initiative as a member of the Consultative Group of The Taskforce on Scaling Voluntary Carbon Markets ("TSVCM"), which was launched by Mark Carney, UN Special Envoy for Climate Action and Finance Advisor to UK Prime Minister Boris Johnson for COP26. The TVSCM was established to ensure the integrity of carbon credits, support the development of robust carbon market infrastructure, and support the scaling of carbon markets to allow significant financial flows into carbon credits and offsetting. Visit: www.iif.com/tsvcm

Initiative: Net Zero Asset Managers Initiative ("NZAMI")
Joined: 2021
Role/focus: Signatory/investor focused
About initiative: The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. As of 31 May 2022, the NZAMI was supported by 273 signatories representing USD61.3 trillion in assets under management. Signatories to the NZAMI commit to publishing decarbonization plans, metrics and targets within a year of signing up to the initiative. Visit: www.netzeroassetmanagers.org

Integrating Sustainability Risk into Investment Decisions (Article 3 SFDR)

What are "Sustainability Risk"?

The Regulation (EU) 2019/2088 ("SFDR") defines a Sustainability Risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment"[18]. Muzinich considers this definition to be synonymous with our understanding of ESG risks and we use these terms interchangeably. We believe such risks can have a material impact on the reputation, financial profile, liquidity, and profitability of companies we might invest in, and ultimately on the risk and return of a financial product or portfolio.

How Muzinich considers Sustainability Risk

As an investor in corporate credit, one of our primary concerns is to identify and, where possible, seek to manage and mitigate the negative impacts of Sustainability Risk on the returns of our financial products and services through investment due diligence or research, asset allocation, portfolio management, restrictions or exclusions, and/or ongoing monitoring of, and engagement with entities in which we invest. We seek to assess sustainability issues and potential materiality on a case-by-case basis based on available ESG data. Outside of investment products which have specific ESG scoring thresholds as part of their ESG policy, we do not typically follow a mechanistic or rules-based approach whereby ESG metrics directly impact buy, sell, or weighting decisions on investments.

Sustainability metrics may be sourced by our research teams from company publications and live interactions, from public news, from NGOs, from our ESG data providers, and from other sources, and are integrated into our research notes (for public debt), and investment memorandums (for private debt).

Where our analysts deem Sustainability Risk to be substantial and not adequately reflected in the pricing of an investment, they may recommend avoiding, reducing or selling relevant holdings. Pre- or Post-investment, we may engage with a company to seek its provision of better Sustainability Risk disclosures or to encourage the company to improve their management of those risks as outlined in our "Policy on Engaging Issuers on ESG Matters". Please also see our ESG policy for our "Policy on Integrating ESG and Sustainability Risk into Investment Research".

[18] See Article 2(22) of the SFDR. Available online: https://eur-lex.europa.eu/eli/reg/2019/2088/oj

Firm-level Consideration of Principal Adverse Impacts (Article 4 SFDR)

Consideration of Principal Adverse Impacts

SFDR explains that principal adverse impacts ("PAIs") should be understood as "those impacts of investment decisions and advice that result in negative effects on sustainability factors". Indicators of PAIs include greenhouse gas emissions and social and employee matters, including board gender diversity.

While we consider PAIs in relation to certain financial products (as indicated in the "Product-specific ESG Policies of Muzinich-branded Funds") - notably all Muzinich UCITS products that disclose under Article 8 SFDR (accounting for more than 95% of Muzinich-branded UCITS AuM[19]) - we do not consider PAIs across the entirety of the AuM for which we are responsible.

This is primarily because:

- we are a sub-advisor for certain strategies where the investment manager has set their own investment strategy and restrictions and for which we are not required to consider PAIs;
- we manage certain strategies with significant holdings in cash, cash equivalents, credit derivatives, structured finance instruments or illiquid debt instruments for which we do not consider it practical to consider PAIs because is it not possible to source relevant PAI data and/or because we do not perceive there to be a direct or representative link between the investment and the negative impacts of the underlying entity or entities (e.g., a hedging instrument linked to a broad index of underlying securities); and
- there is a lack of sufficient and reliable data available in order to accurately consider PAIs.

We continue to review our approach to considering PAIs across Muzinich products. We anticipate that updates to the EU Non-financial Reporting Directive and other related transparency initiatives will drive more comprehensive corporate disclosures on PAIs and ESG factors thus facilitating further consideration of PAIs across a broader range of our public and private investment strategies from 2023 onwards.

[19] As of 28th February 2023.

Integration of Sustainability Risk into Remuneration (Article 5 SFDR)

This information is provided for the purpose of meeting the disclosure required under Article 5 of SFDR on the consistency of our remuneration policy with our policy on the integration of Sustainability Risk.

This disclosure relates to each of the following Muzinich group entities (each a "Firm" and together the "Group"):

- Muzinich & Co. Limited
- Muzinich & Co. (Ireland) Limited
- Muzinich & Co. SGR S.p.A.

Each Firm has separately implemented remuneration policies and procedures (each a "Remuneration Policy" and together the "Remuneration Policies"), which govern the processes concerning the payment of remuneration to the relevant Firm's in-scope employees and other in-scope members of staff (the "Employees"). Each Firm has updated its Remuneration Policies, with effect from 10 March 2021, to reflect the integration of Sustainability Risk, as required by SFDR.

Sustainability Risk alignment

Each Firm acknowledges that its Remuneration Policy, and an individual employee's remuneration, must be consistent with and promote sound and effective risk management (which includes the management of Sustainability Risk), and not encourage risk-taking that exceeds the level of tolerated risk of the Firm. The risk-limiting features of the Remuneration Policy include (amongst other things) the application of non-financial metrics, such as an assessment of an employee's compliance with the Group's ESG policies, as applicable.

Performance measurement

Each Firm carries out an assessment of an individual's performance, when assessing and determining variable remuneration. This assessment is based on both quantitative and qualitative criteria. The qualitative criteria used include, among others, an assessment of whether the relevant employee has complied with the Firm's ESG policies, including its policy on the integration of Sustainability Risk in investment decision-making.

For Muzinich's public debt investment professionals, the variable part of their remuneration is evaluated based on the overall performance of Muzinich's portfolios (including portfolios with specific ESG characteristics or objectives). The responsibilities, evaluation and compensation of research analysts includes a formal responsible investment component which is segregated from other responsibilities or compensation metrics.

This assessment of compliance with the ESG policies will be carried out by senior management. In general terms, a positive or neutral assessment of overall compliance by an employee with the ESG policies would not in itself be expected to contribute to any additional variable remuneration being awarded to an individual Employee. However, in extreme cases, a negative assessment of overall compliance by an employee with the ESG policies may result in a reduction in the variable remuneration amount which would otherwise have been awarded to that individual.

Principal Adverse Impacts Statement

As part of their investment process, some of the Muzinich-branded funds listed in the "Product-specific ESG Policies of Muzinich-branded Funds" document consider principal adverse impacts of investment decisions on "sustainability factors" ("PAI") as defined in the SFDR. The SFDR explains that PAI factors should be understood as "those impacts of investment decisions and advice that result in negative effects on sustainability factors".

Principal Adverse Impacts are conceptually different from a "sustainability risk" as defined by the SFDR, as the former does not necessarily imply an immediate risk to investment value. However, in practice, we believe that many environmental, social or governance factors may be considered both financially material, and material sustainability factors.

Annex 1 of the Regulatory Technical Standards of the SFDR lists 14 PAI factors which are mandatory to report, plus a further two factors for investors in sovereign and supranational entities, and a further two for real estate investors. In addition, there are a further 46 PAI factors which are considered voluntary for investors to report on however all investors must report on at least one environmental, and one social PAI factor from this 'additional' list.[20]

As a result of clarifications made by the European Supervisory Agencies in 2021 and 2022, Muzinich has reviewed its position on the consideration of PAIs at entity level. While we consider PAIs in relation to certain financial products, most notably to all Muzinich UCITS products currently disclose under Article 8 SFDR, we do not consider PAI factors across the entirety of AuM for which we are responsible. This is primarily for one or more of the following reasons:

- we are a sub-advisor for certain strategies where the investment manager has set their own investment strategy and restrictions and for which the investor has not explicitly requested consideration of PAI factors;
- we manage certain strategies with significant holdings in cash, cash equivalents, credit derivatives, structured finance instruments or illiquid debt instruments for which we do not consider it to be practical to consider PAI factors because is it not possible to source relevant PAI data and/or because we do not perceive there to be a direct or representative link between the investment and the negative impacts of the underlying entity or entities linked to the security (e.g., a hedging instrument linked to a broad index of underlying securities);
- we anticipate that updates to the EU Non-financial Reporting Directive and other related transparency initiatives will drive more comprehensive corporate disclosures on PAI and ESG factors thus facilitating more consideration of PAI factors in a broader range of public and private investment strategies from 2023 onwards.

Prioritizing and Integrating Principal Adverse Impact Factors

At the date of this policy, there are 18 mandatory indicators and a further 46 additional voluntary indicators. While Muzinich believes all mandatory indicators of PAIs to be important, we have chosen to prioritize these indicators based on our ESG philosophy and practical considerations such as the availability of data, as shown below in Figure 1.

Muzinich considers indicators of PAIs in relevant investment strategies by integrating them alongside relevant ESG factors and more traditional financial

[20] Further details are available in the SFDR Regulatory Technical Standards Annex I which is available online: https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_annexe_acte_autonome_part1_v6.pdf

factors as part of its research and due diligence process. In practical terms, Muzinich's research analysts gather relevant information either directly from issuers, from public sources or indirectly from independent ESG data providers and other credible sources.

In order to avoid or reduce PAIs over time, where these are considered material, taking account of the importance of each investment across our overall investment activity, Muzinich may seek to engage with an issuer to manage their impacts better or may reduce an investment or ultimately exclude these companies from further consideration for investment. See "Policy on Engaging Issuers on ESG Matters" for further detail.

For certain Muzinich products, explicit ESG exclusion policies (e.g., for controversial weapons or tobacco), and conduct-based screening (e.g., for gross corruption) also aim to reduce PAIs of our investments. For further details on exclusions for specific Muzinich funds see our "Product-specific ESG Policies of Muzinich-branded Funds" document.

Figure 1: Prioritization of the indicators of PAIs

Mandatory PAI indicators[21]		Muzinich PAI prioritization
Corporate issuers		
Greenhouse gas emissions	**1. Greenhouse gas (GHG) emissions (scope 1, 2, 3 and absolute GHG emissions)**	**High**
	2. Carbon footprint	**High**
	3. GHG intensity of investee companies	**High**
	4. Exposure to activities in the fossil fuel sector	**High**
	5. Non-renewable energy consumption and production	Medium
	6. Energy consumption intensity per high impact climate sector	Medium
Biodiversity	**7. Activities negatively affecting biodiversity-sensitive areas**	**High**
Water	8. Emissions to water	Low
Waste	9. Hazardous waste ratio	Low
Social and employee matters	**10. Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises**	**High**
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	**High**
	12. Unadjusted gender pay gap	Medium
	13. Board gender diversity	Medium
	14. Exposure to controversial weapons	**High**
Sovereign issuers		
Environmental	15. GHG intensity	Not applicable
Social	16. Investee countries subject to social violations	Not applicable
Real estate investments		
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Not applicable
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Not applicable

Voluntary PAI indicators		PAI prioritization
Additional climate and other environment-related indicators[22]		
Emissions	4. Investments in companies without carbon emission reduction initiatives	Medium
Energy performance	5. Breakdown of energy consumption by type of non-renewable sources of energy	Medium
Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters[23]		
Social and employee matters	3. Number of days lost to injuries, accidents, fatalities or illness	Medium
Social and employee matters	6. Insufficient whistleblower protection	Medium
Human rights	**9. Lack of a human rights policy**	**High**
Anti-corruption and anti-bribery policies	**15. Lack of anti-corruption and anti-bribery policies**	**High**

[21] The numbers listed in this table align with the number of the PAI indicators listed in Table 1 of Annex 1 of the RTS.
[22] The numbers listed in the following rows align with the number of the PAI indicators listed in Table 2 of Annex 1 of the RTS.
[23] The numbers listed in the following rows align with the number of the PAI indicators listed in Table 3 of Annex 1 of the RTS.

Assessment of Good Governance: Relating to Article 8 SFDR Financial Products

Under Regulation (EU) 2019/2088 ("SFDR"), financial products which disclose under Article 8 SFDR should only invest in companies which the investor deems to follow good governance practices. As such, Muzinich seeks to ensure that all investee companies held by our Article 8 SFDR financial products will follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. While Muzinich seeks to assess the quality of governance of all entities in which we invest, for the purposes of our SFDR disclosures this statement therefore refers only to our Article 8 products.

Assessing corporate alignment with "good governance" practices

While we recognize the distinction made by the SFDR between PAIs and Sustainability Risk, Muzinich approaches these two concepts and the concept of 'good governance' using a similar framework and a similar set of responsible investment tools. That is through the assessment of governance factors including those listed in our "Policy on Integrating ESG and Sustainability Risk into Investment Research", such as audit programs, board diversity, board independence, alignment of remuneration policies with ESG matters, sound management of supply chain risks, management of modern slavery and child labor risks, bribery and corruption policies, and compliance with all relevant local laws and business regulations.

While there is no universal standard for what constitutes "good" governance, we expect companies to demonstrate good governance practices through their alignment with international norms and frameworks such as the International Corporate Governance Network Principles, the UN Global Compact Principles, and national governance standards. We also expect companies to operate legally, according to local laws, and within any relevant industry regulations. Our research or deal team analysts will benchmark a company's alignment with these frameworks based on its review of the various factors outlined above. Muzinich's proprietary ESG scoring system also includes fundamental governance factors and independent ESG data sources provide information on corporate governance controversies to assist in our assessment of a company's governance practices.

Muzinich research or deal team analysts are expected to flag any concerns about potentially poor governance practices (e.g., misalignment with the frameworks referenced above) in their research recommendations and discussions with investment decision-makers.

Muzinich's ESG Eligibility Committee is responsible for determining whether a potential investee company follows good governance practices and is therefore eligible for investment. In some instances, the Committee may restrict the addition of new investments in specific companies or require the investment team to initiate an engagement with the company if concerns are raised. The progress and effectiveness of the engagement (or lack of) will lead to further discussions and may lead to a determination to divest from a company that is no longer following good governance practices. It is the responsibility of Muzinich's portfolio managers and investment committees, supported by our research and ESG teams, to regularly monitor portfolio companies as their governance inevitably evolves over time.

Where Muzinich invests in certain instruments which are not directly linked to a long holding in an individual company, such as cash, cash equivalents, hedging instruments, short positions, credit default swaps or index positions, it may not be possible for our analysts to assess the quality of governance of a related issuer or issuers.

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Muzinich funds stated on pages 22 and 23 are a sub-fund of Muzinich Funds, a unit trust organised under the laws of Ireland and authorised by the Central Bank of Ireland as UCITS.

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Risk warning. Alternative investments can be speculative and are not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing and able to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include: (a) Loss of all or a substantial portion of the investment; (b) Lack of liquidity in that there may be no secondary market for interests in the Fund; (c) Volatility of returns; (d) Restrictions on transferring interests; and (e) Potential lack of diversification and resulting higher risk due to concentration within one of more sectors, industries, countries or regions.

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