Policy on Engaging Issuers on ESG Matters

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Muzinich & Co

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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.

Risk warnings: Exclusion Risk: ESG screening can limit the investment opportunities available to a portfolio, such as the exclusion of certain investments for non-financial reasons. As such, a portfolio may underperform other similar portfolios that do not apply ESG screening. ESG Risk: Consideration of Sustainability Risks in the investment process can result in the exclusion of certain investments in a portfolio. Therefore, results may differ, and a portfolio that considers sustainability risks might underperform other similar portfolios that do not consider such risks.

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SFDR - Refers to Regulation (EU) 2019/2088 or the Sustainable Finance Disclosures Regulation (SFDR) a piece of European financial sector regulation which sets out obligations for financial market participants to disclose specific details on their approach to sustainability risks in their investment process and other details on the provenance of ESG claims that are used to market their financial products. Further details on Muzinich’s SFDR disclosures are available in relevant product documentation such as fund prospectuses and supplements on our website www.muzinich.com.

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