UK STEWARDSHIP CODE 2020

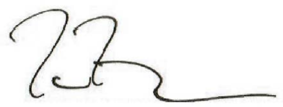
HAYFIN CAPITAL MANAGEMENT LLP

OCTOBER 2024

Preface

The UK Stewardship Code 2020 sets high stewardship standards for asset managers. The Code comprises a set of “apply and explain” principles but does not prescribe a single approach to effective stewardship. Instead, it allows asset managers to meet the stated expectations in a manner that is aligned with their own business model and strategy.

Hayfin recognises that responsible stewardship is fundamental to fulfilling our fiduciary duty for our investors. Accordingly, we fully support the Code, applying its 12 principles across our strategies. We henceforth set our commitment and the manner in which we are fulfilling the principles of the Code and our stewardship responsibilities for the 12-month period to 30 April 2024.



Tim Flynn, CEO

Principles for asset owners and asset managers

Principle 1: Purpose, strategy, and culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society

Hayfin was launched in 2009 with a mandate to search across the European private credit markets to identify the best risk adjusted returns on behalf of its original institutional shareholders. While we have since segmented investments into distinct strategies, broadened our investor base and grown our team, we have not changed our investment philosophy. Hayfin's investments are rooted in fundamental credit analysis, requiring careful, thorough research of each investment opportunity. We conduct extensive market due diligence, analysing the competitive environment and industry outlook across a potential borrower's core markets. We also undertake an extensive due diligence review of each potential borrower to identify financial trends and sensitivities in the historic financial performance of the potential borrower. Across our strategies, we manage broad but well-defined mandates, enabling us to respond to changing market conditions and to invest in areas where capital and competition are relatively scarce. We diversify across geography, industry, and number of investments. We generate differentiated return through hard work and insightful analysis.

Discipline is the cornerstone of Hayfin's approach to implementing its strategies. This includes discipline in sourcing, where Hayfin has developed an approach that minimises competition with other providers of capital, and discipline in investment selection, where Hayfin has emphasised preservation of capital rather than taking excessive risk to achieve target returns. We rigorously review documentation prior to investment, maintaining structural protections and covenant packages, to protect our investors' capital.

We recognise that we would not achieve our objectives without our people. We seek to recruit and retain exceptionally talented professionals. We believe in being local in each of our markets, and that our diverse mix of nationalities, cultures and languages makes us more connected to these markets. While most of our team are industry generalists, we employ dedicated specialist teams where we believe focused expertise provides an advantage.

Our investment professionals are rewarded to collaborate, rather than outperform peers, to achieve the best outcomes for our investors. They are recognised for sharing their experiences and learning from past mistakes. Furthermore, we provide a strong and stable platform, including an experienced middle- and back-office team who are committed to ensuring a smooth process for our investors. Our business development team is focused on building long-term, trusted partnerships with our investors while offering strong transparency and exceptional client service. Our management team is committed to continual improvement and long-term success.

In late 2019, we launched a Culture Committee to articulate the principles to which we adhere when we work at our best on behalf of our investors. In 2020, the Committee, with the help of a broader internal working group, developed a mission statement supported by a set of values and behaviours. The outcome is shown on the following page.

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

Hayfin's Mission Statement and Values

Our mission is to deliver consistent, superior, risk-adjusted returns to our investors. We aim to achieve this through a collaborative approach with unwavering focus on integrity, discipline, and creativity in everything we do. Our people, and the trust instilled in us by our stakeholders, are our core assets.

Responsibility

We are dedicated to our partners and constantly work to stay aligned to their long-term objectives. As custodians of our investors' capital, we are prudent with our decisions and will not lose sight of risk or our mandate in pursuit of return. We understand that if we do the right thing by our investors, our own success will follow.

Collaboration & Transparency

We are open-minded and team focused, sharing our knowledge and experience and working together towards a collective goal. We stress collaboration in everything we do because we believe teamwork, healthy debate and humbleness create better decision making. We keep communication simple, kind, accessible and proactive while recognising the need for transparency to collaborate in a committed and non-political way.

Excellence

We are hard-working and dynamic, always searching for new and better ways to work, seeking feedback and challenging conventional thinking. We foster an ambitious and high performing culture where people understand improvement is a constant exercise. We do not hide our mistakes and recognise them as a natural part of our personal and collective growth. We make an outsized effort to attract, retain and promote people who will challenge us and contribute to our success.

Entrepreneurial

We are energetic, flexible and creative. We incubate and innovate new ideas to support progress while keeping in mind the risks involved. This freedom to explore inspires us and makes our work exciting and fun. We remain rigorous and diligent about what we do while staying flexible and adaptable, to look beyond conventional answers and pursue the most compelling opportunities for our investors.

Diversity

We are committed to cognitive diversity at our firm. We accept and appreciate that different ways of seeing and thinking can make us stronger as a team. We seek to bring people together from diverse backgrounds and aim to strike a balance in skill set, character, experience, and point of view. We ensure everyone feels valued and comfortable expressing themselves and use these different perspectives to solve problems and make better decisions.

The above mission statement highlights how responsibility is an integral part of Hayfin's culture. We focus on analysing material ESG issues as part of our overall risk assessment of an investment. In doing so, we are making more informed investment decisions, better protecting the downside, potentially enhancing returns, fulfilling our fiduciary duty, and protecting the firm's reputation. We embed ESG not only within our investment process, but also within our corporate strategy. By considering ESG at a corporate level, we are contributing to a more sustainable world for our stakeholders, including our investors and their beneficiaries, our shareholders, our borrowers, and our employees.

Our responsible investing approach is inclusive and active. We believe that directing capital towards borrowers willing to improve the sustainability of their activities may generate better outcomes than simply excluding investments on poor ESG grounds. As such, we support companies across industries at different stages of the ESG journey. One of our key considerations is engagement. Specifically, we consider the degree to which we are able to engage with our sponsors and/or borrowers, and whether they are willing to engage with us.

An ESG framework for investment opportunities

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

Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over investee companies. However, Hayfin seeks to engage on ESG matters, where possible and practicable. Through engagement, we strive to increase transparency of information, raise awareness of ESG issues, and encourage better ESG practices, where relevant. The level of engagement depends on the type of investment.

As a signatory of the UN Principles for Responsible Investing ("PRI") since 2018, Hayfin has embedded the following principles in its approach to stewardship and in its Responsible Investing Policy:

- Principle 1: Incorporate ESG issues into our investment analysis and decision-making processes
- Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices
- Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest
- Principle 4: Promote acceptance and implementation of the Principles within the investment industry
- Principle 5: Work together to enhance our effectiveness in implementing the Principles
- Principle 6: Report on our activities and progress towards implementing the Principles

Our ESG goals for 2024, set out below, are guided by the PRI, our investors, our internal views, and trends across the industry. Note that some of our goals remain the same as in 2023, as we believe implementing lasting change can take several years of consistent effort to yield results.

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

Goal	Current progress
Increasing quantitative ESG data capture across the latest vintage of	For direct lending, we are on our third year of issuing an annual ESG questionnaire to our borrowers to improve ESG data coverage. We updated the questionnaire in line with the ESG Integrated Disclosure Project template we helped create, in collaboration with industry groups and other alternative credit managers. We continue to consider means to improve the data aggregation process to support us

our Direct Lending Fund (DLF IV"), our High-Yield and Syndicated Loans ("HYSL") Fund and our Private Equity Solutions Fund ("PES II")	in assessing, tracking and monitoring borrowers', GP's and sponsors', progress in core ESG topics. For HYSL, we continue to gather emissions data and assess net zero alignment of issuers. Over the reporting period, we gathered emissions data for circa two-thirds of our issuers. For Private Equity, we continue to annually collect data from the sponsors we work with; in early 2024, Hayfin asked GPs whether they monitor and measure biodiversity-related risks and impacts. This is a new topic included in Hayfin's ESG Survey.
Enhancing our approach to, and analysis of, climate change	We have defined an internal net zero alignment framework and begun using this as a monitoring tool for private and liquid credit assets. We have also created an internal Net Zero Roadmap highlighting our short, medium, and long-term plans and some of the issues we currently face in strategic planning for managing climate risk. In preparing for our inaugural TCFD UK Entity Report, Hayfin has taken a range of actions to develop, and formalise, its approach to identifying, monitoring and managing material climate-related risks at the fund and corporate level. Actions include the establishment of a Climate Policy, a Climate Working Group, and membership of Initiative Climat International ("iCI") in early 2024. (Hayfin's entity level TCFD Report is now available on its website).
Deepening ESG integration and accountability within our strategies	We established an ESG Governance Committee which is intended to provide clear oversight on the application of the ESG process. The Committee also serves as a dedicated forum for our Portfolio Managers to report on ESG integration and stewardship across funds. Key priorities in the reporting year include: o building procedures to systematise the monitoring of ESG processes and ESG-related data at the appropriate times of the reporting year, across the appropriate funds; o confirming that Hayfin is prepared for the Financial Conduct Authority's ("FCA") Anti-Greenwashing Rule (applicable under the Sustainability Disclosure Requirements); and o discussing key developments in Hayfin's reporting and ESG strategies.
Improving disclosure on ESG and engagement	Four of our funds disclose under the EU's Sustainable Finance Disclosure Regulation ("SFDR") Article 8. We continue to build out our ESG approach, and ESG integration tools, to include other private credit funds as well as consider new methods of disclosing more relevant ESG-related information about fund investments in the latest direct lending vintage (Direct Lending Fund V). We routinely report to investors on wider Hayfin ESG initiatives and progress made within quarterly investor letters. We continue to look for ways to report quantitative metrics to investors from the data we gather.

Developing our engagement approach (specifically for private credit strategies)	Throughout the reporting period, Hayfin's ESG team focused on enhancing and expanding existing ESG processes, including formalising its engagement approach for private credit strategies. Building on engagement activities already undertaken in private credit strategies, Hayfin's ESG team established a formal engagement framework in Q4 2023. The framework defines the purpose of engagement as a lender and lists the methods and tools investment teams may use to evidence credible engagement on sustainability-related topics during portfolio monitoring. Hayfin's Engagement Framework, as a lender with limited influence, emphasises that engagement is not simply about 'outcomes' (which are important), but involves having constructive dialogue with borrowers. Engagement activities might include raising borrowers' awareness about certain ESG topics or encouraging borrowers to adopt better ESG practices through economic incentives (ESG margin ratchets).

Our track record and our loss rate are used by our investors to assess our success. However, we do not feel that these statistics are adequate. Hayfin believes success is not just measured by the returns we generate for our clients, but also the impact we have on the world through the companies we finance. Our decision to become a signatory of the PRI was driven by our recognition of the PRI's leadership in ESG and our desire to use their frameworks to assess ourselves on our responsible investing practices. The PRI will continue to help us shape and prioritise our goals for the future.

While we look to the PRI for guidance, we also look to our investors and their consultants for feedback on our ESG and stewardship processes. We have received positive feedback on our governance and oversight of ESG integration throughout our investment process, the efficacy of our procedures, controls for analysing ESG risks, and our application and monitoring of ESG risk factors. While we take pride in hearing about our strengths, we continually make an effort to address areas for improvement by engaging with investors on ESG topics. We continue to enhance our ESG integration process and reporting to support investors with their own reporting obligations. For example, we now provide investors with five fund-level sustainability indicators in our annual Direct Lending Fund IV Q4 investor letter using ESG data collected throughout the year. We welcome client feedback and partnership regarding our approach to responsible investing. Our ESG Steering Committee is responsible for understanding the continually evolving ESG standards defined by the industry, regulators, and our investors, and for defining new goals and determining how we can implement them in collaboration with the relevant Portfolio Managers at Hayfin. Our philosophy is that ESG is a journey and that we will continue to strive to improve as an alternative investor.

Principle 2: Governance, resources, and incentives

Signatories' governance, resources, and incentives support stewardship

Hayfin Ownership

Hayfin benefits from a stable and long-term ownership model with strong team alignment. In January 2017, British Columbia Investment Management Corp ("**BCI**"), became an institutional shareholder of Hayfin to support the long-term growth plan of the company. BCI is a leading provider of investment management services for British Columbia's public sector with approximately C$250 billion of managed assets. In the reporting period Hayfin management and employees remained substantial shareholders alongside BCI. As a founding PRI signatory in 2006, BCI and Hayfin are in constant collaboration to adopt and apply ESG best practices.

ESG Steering Committee

Hayfin's ESG efforts are led by the ESG Steering Committee (formerly the 'ESG Committee') which is comprised of members from the senior management, investment, legal, and client service teams. The ESG Steering Committee meets monthly to oversee Hayfin's ESG efforts. The ESG Steering Committee supports the Head of ESG to conduct ESG-related training for employees and is updated on the completion of Hayfin's PRI reporting and SFDR Article 8 reporting for four of our funds. The ESG Steering Committee also discusses how the firm can improve to become best-in-class in ESG across its business lines, identifies new initiatives, and determines implementation for new processes.

Some of the activities undertaken by the ESG Steering Committee during the reporting period include:

- Undertaking an annual review of Hayfin's Responsible Investment Policy and Exclusion Policy;
- Overseeing Hayfin's carbon emissions footprint assessment at the corporate-level and taking steps to reduce emissions, where possible and practicable;
- Developing a Net Zero Roadmap which summarises Hayfin's immediate and longer-term strategy related to managing financed emissions in its latest, and future, direct lending fund vintages;
- Upskilling members' knowledge on important ESG-related topics and regulations, including the FCA's Anti-Greenwashing Rule;
- Discussing developments in Hayfin's ESG approach across a range of its funds and strategies, and monitoring how investors are responding to our improvements;
- Continuing our contribution to PRI's Private Debt Advisory Committee, represented by Hayfin's Head of ESG;
- Reviewing, where appropriate, ESG fund-level reporting, such as SFDR Article 8 Periodic Disclosure reporting.

Seniority, Experience and Qualifications

Members of the ESG Steering Committee come from diverse backgrounds, both academic and professional, and they bring to the committee a diversity of perspectives and opinions. The ESG Steering Committee is supported by Hayfin's Head of ESG who joined Q4 2021.

ESG Steering Committee Members		
Chair of Committee and Head of ESG: Caoimhe Bain (13 years' experience) Secretary of Committee: Owen Wright, Corporate Governance		
Legal	Partner Solutions	Investment
▪ David Rushford, General Counsel (24 years' experience) – left the Committee in January 2024 to focus ESG-related responsibilities in Hayfin's ESG Governance Committee ▪ Alex Pickett, Legal Counsel (10 years' experience)	▪ Christian Peters, Director (16 years' experience)	▪ Mirja Lehmler-Brown, Managing Director (26 years' experience) ▪ Andrew McCullagh, Managing Director (34 years' experience) - left the Committee in January 2024 to focus ESG-related responsibilities in Hayfin's ESG Governance Committee ▪ Mark Bickerstaffe, Managing Director (24 years' experience) ▪ Matthew Supranowicz, Principal (18 years' experience)

ESG Deal Committee

The ESG Deal Committee's primary role is advisory. Committee members critically assess the responsible analyst's ESG Memo and identify any potentially material ESG risks that might not have been factored into an analyst's assessment. The committee convenes prior to Investment Committee meetings for all private credit deals and provides comment on a deal's ESG credentials and risks associated with underwriting a specific deal. All material Environmental, Social and Governance matters will be raised and assessed with the responsible analyst, to ensure there has been a sufficient, and independent (albeit internal), assessment of a borrower's ESG risks and opportunities.

The committee has no power of veto, and acts simply to advise, discuss and deliberate on material ESG risks associated with a potential borrower. Discussions reflect ESG considerations which are not captured as part of the investment due diligence, i.e., this is an additive check, which enables analysts to critically assess the ESG profile of a borrower prior to Investment Committee ("IC").

To summarise, the ESG Deal Committee's main responsibilities include, but are not limited to:

- Critically reviewing an analyst's ESG Memo, and requesting further information should it be required;
- Overseeing the implementation of ESG deal scoring by the responsible analyst;
- Providing guidance for the investment team on the application of ESG tools, including proper use of Hayfin's proprietary ESG Deal Score tool;
- As part of the direct lending strategies, ESG margin rachet KPIs should be considered, where appropriate, at committee meetings (please note further conversations are likely to happen outside of an official meeting when formalising ESG margin rachets); and
- Escalate all financially material ESG issues to Investment Committee in the meeting minutes.

All meetings are formally recorded by the committee Secretary, with minutes sent to members of the Investment Committee for discussion prior to investment.

The ESG Deal Committee includes members of Hayfin's investment, ESG, investor relations and execution teams. Membership is reviewed should a member no longer be able to participate on a regular basis, or as required.

ESG Steering Committee delegated initiatives

Reporting to the ESG Steering Committee, Hayfin's Climate Working Group seeks to develop a base of climate knowledge and expertise. Its primary role is to facilitate discussion on climate change topics, as it pertains to the business and/or investment functions, amongst different Hayfin teams, namely investment teams, business development, legal execution and ESG.

ESG Governance Committee

The ESG Governance Committee reports to Hayfin's Risk & Compliance Committee ("RCC"). The Committee's primary role is to ensure ESG policies and processes are adhered to, implemented and well-governed across the firm, particularly where there are regulations governing fund- and/or corporate-level ESG processes. The purpose of this committee is to act as a second line of defence for the business.

Oversight and Reporting Lines

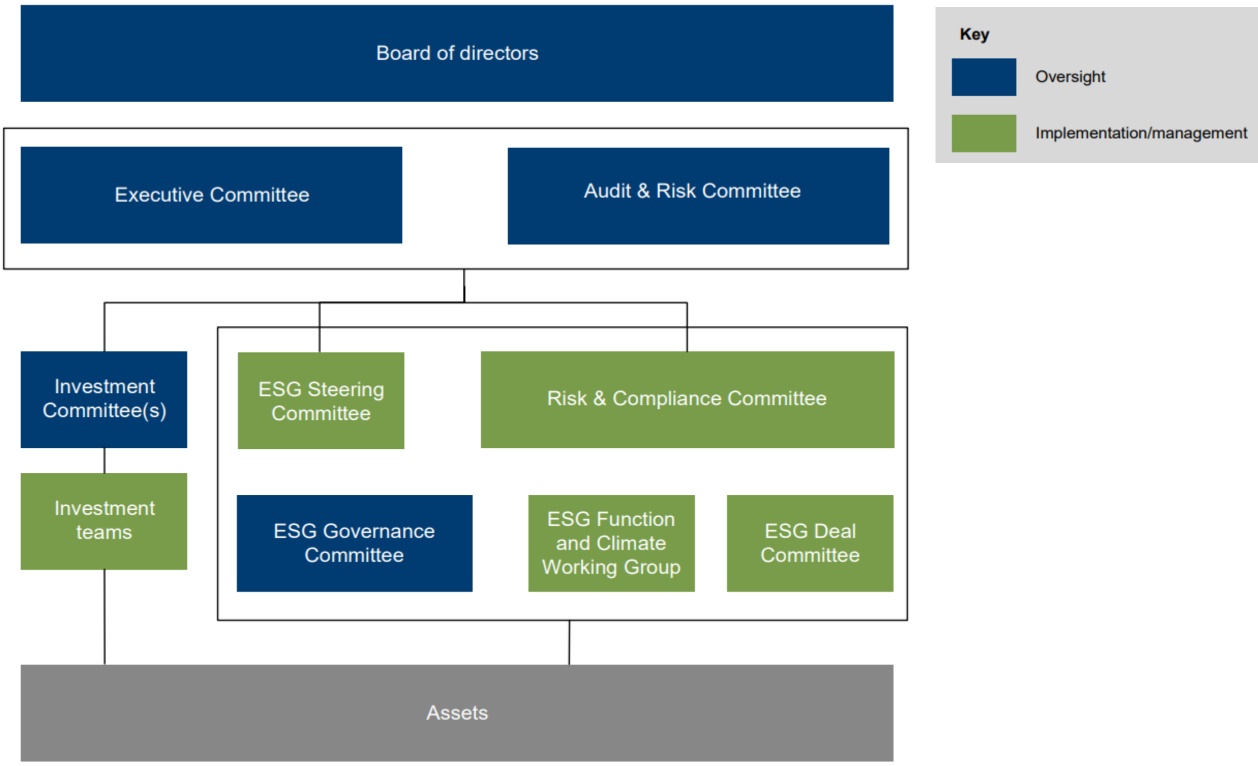
Hayfin's Risk & Compliance Committee ("RCC"), formally established in 2023, reports to Hayfin's Audit & Risk Committee ("ARC"). This Committee focuses on business- and investment-related risks, including those associated with ESG, and monitors progress made to improve the governance of ESG data and processes. Its remit is to ensure consideration of commercial and regulatory ESG risks to the business. Members of Hayfin's RCC include Chief Risk Officer (Chair), General Counsel, Chief Compliance Officer, Chief Operating Officer (for Liquid Credit), Chief Operating Officer (Private Credit), Chief Finance Officer, Head of Fund Finance, Head of Technology and Hayfin's Risk Specialist. Three members of Hayfin's ESG Governance Committee are permanent members of RCC; the Head of ESG reports to the Committee biannually, typically updating RCC members on progress against Hayfin's annual ESG Scorecard (corporate and investment ESG-related objectives).

The RCC reports to ARC on a quarterly basis, where high-level information about ESG projects to reduce or eliminate business risks associated with ESG are discussed.

In 2019, Hayfin established an Audit & Risk Committee ("ARC"), responsible for implementing Hayfin's risk management framework covering non-investment risk. The Audit & Risk Committee reports quarterly to Hayfin's Board of Directors.

Record Keeping

Summaries of the investment reviews by the ESG Deal Committee have been recorded in an internal database since 2019; discussions about every deal which is reviewed by the ESG Deal Committee is separately noted in a meeting minutes note. Minutes are sent to Investment Committee members. Information gathered serves as the basis for engagement with portfolio companies and sponsors. It allows us to monitor key metrics and related action items. The database is also used by the Investor Relations team in its reporting to investors and contributes to maintaining transparency towards them.



In addition to the above, the ESG Steering Committee reports periodically to the Hayfin Executive Committee on progression made against pre-set annual ESG objectives.

Resources

Effective stewardship is at the heart of our investment process and our investment team is integral to Hayfin improving its long-term returns and fulfilling its duty towards its investors. Hayfin can count on a strong investment team composed of:

Private Credit: 70 professionals

Private Equity: 9 professionals

Liquid Credit: 21 professionals

(Figures as at 31 March 2024)

Training

Every year, we conduct ESG-related training for investment teams to ensure that they have the required ESG knowledge and skills to incorporate best responsible investment practices in their day-to-day activities. These have become mandatory for Hayfin's investment and client-facing teams. We hold the sessions on an annual basis in the autumn, with dedicated ESG sessions scheduled exclusively for new joiners. The sessions summarise the ESG integration process, share best practices, and update on new initiatives. They specifically address the following:

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

Two additional sessions were undertaken in late 2023 and early 2024. These training seminars focused on upskilling the Investor Relations and Partner Solutions teams on the Financial Conduct Authority's ("FCA") Anti-Greenwashing Rule, of which Hayfin is in-scope of, and training devoted to the ESG integration processes and tools for the investment team specific to one of Hayfin's tactical solutions strategies.

Knowledge development is ongoing at Hayfin, as the investment team refers to the Sustainability Accounting Standards Board ("SASB") materiality mapping when conducting analysis on new investments. The ESG Deal Committee may also encourage the investment team to conduct more analysis and engagement regarding specific issues based on lessons learned from prior investments, or constraints around the availability of information in the pre-investment stage.

Incentives

Hayfin's approach to compensation seeks to align individual performance and incentives with the success of our investors and our shareholders, while complying with the FCA remuneration rules for investment firms. Our Remuneration Committee reviews and implements Hayfin's remuneration policy. Remuneration is comprised of salary, annual cash bonus, and long-term incentives in the form of equity and carried interest schemes. The make-up of remuneration for each role is set according to function and seniority within our incentive framework. Non-cash incentives including carry and equity participation encourage retention and alignment to investor interest.

The compensation of our dedicated ESG team members is directly linked to pre-determined annual ESG targets being met, as well as progress made towards reaching the ESG Steering Committee's annual goals, as set out in Hayfin's annual ESG Scorecard at the beginning of each year. Objectives for 2024 include, albeit not limited to, publishing Hayfin's inaugural Task Force for Climate-related Financial Disclosure ("TCFD") by 30 June 2024, further develop Hayfin's ESG strategy in its latest Direct Lending Fund vintage, and identifying, and joining, a climate-focused external initiative.

Principle 3: Conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Hayfin recognises that the nature of asset managers' roles can create conflicts of interest. In the event that a conflict of interest arises where an active role in respect of such investments is taken, Hayfin will seek to resolve such conflict in a fair and equitable manner, and in accordance with FCA and other applicable regulatory principles, the relevant provisions of the fund documents (or other investment agreements in the case of other investment vehicles) and Hayfin's own internal policies and procedures. Hayfin also recognises that asset managers are placed in a unique position of trust by their clients. Therefore, the firm's approach to conflicts of interest is to comply not just with the letter of the requirements to which the firm is subject, but also with the spirit of those requirements and the principles underpinning them by being aware of both actual and potential conflict of interest situations.

In accordance with FCA requirements, Hayfin has established, implemented, and maintains an effective conflicts of interest policy that is appropriate for Hayfin's size and organisation and the nature, scale, and complexity of its business. Hayfin's conflicts of interest policy provides transparency to our clients, employees, and other entities about the policies that Hayfin has in place with regard to the potential conflicts that may arise. Additionally, Hayfin established a Gifts and Entertainment Policy and Personal Account Dealing Policy, to ensure no conflicts can arise between employees and investors, and an Allocation Policy to ensure fair and balanced allocations are made to investors. Hayfin reviews these policies on an annual basis to ensure the firm is satisfied that it is up-to-date and meets best practice standards. Our conflicts of interest policy may be available upon request.

Potential Conflicts of Interest

When considering a conflict of interest, the firm considers whether Hayfin may:

- stand to make a financial gain, or avoid a loss, at the expense of a client;
- have an interest in the outcome of a service provided to the client, or transaction carried out on their behalf, which is distinct from the client's interest in that outcome;
- have a financial or other incentive to favour the interests of one client or group of investors over another;
- carry on the same business as the client; or
- receive from a person other than the client an inducement relating to the service provided to the client, in the form of monetary or non-monetary benefits or services.

Conflicts of interest may arise in connection with investments considered or made by Hayfin across its strategies and involving different parts of the capital structure. Below is an overview of potential investment conflicts and how Hayfin addresses them:

- Cross trades: Cross trades are governed by our Cross Trade Policy which dictates when a cross trade may be instructed between two or more Hayfin funds and/or separate accounts managed by Hayfin ("SMA"). All cross trades require a prior approval of the Chief Compliance Officer and Chief Operating Officer of Hayfin or their designees (such as the Chief Executive Officer and/or General Counsel). . When seeking approval, the requestor needs to set out in an email why each fund as a natural buyer or seller of the financial instrument/credit and the proposed price and terms.
- Refinancing: Where a potential conflict arises because a fund or SMA is looking to refinance another fund or SMA, Hayfin considers the risk of loss for the contemplated strategy, the risk of default for the contemplated strategy, the appropriate return/pricing (in line with other loans/investments in the contemplated strategy), and the potential outsized gain or loss for the strategy being refinanced in order to assess if there is an apparent conflict of interest. If so, Hayfin then calls upon a third-party to validate the pricing and terms. Third-party validation could come from consultation with Advisory Boards of impacted funds or investors, independent third-party validation, or a competing proposal on substantially similar terms.
- Investments in different parts of the capital structure: Neither Hayfin nor any fund or SMA managed by Hayfin will make a material investment in any investee company in which another fund or SMA managed by Hayfin holds a material investment in a different class of such investee company's capital structure. This means that one of the strategies must be a non-blocking minority stake. We would also expect such a strategy to be less than one-third of the relevant tranche. From a relationship perspective, Hayfin will

also commit to fund managers that it will not initiate an investment on a loan- to-own basis in the debt of a portfolio company owned by a fund in which the funds strategy is a primary investor.

Example: Investing in different parts of the capital structure

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

Example: Establishing financing trees for competitive bidding processes

When Hayfin intends to carry on discussions with multiple bidders in a competitive process, so called "trees" are established. The purpose behind setting up these trees is to preserve the option in the future to credibly set up separate trees for additional bidders who may approach Hayfin. A member with approved access to the tree must inform their client that Hayfin is not exclusively committed to that client in connection with the transaction and shall be free to work with other bidders. In addition, the client must be notified of the members of staff that have been assigned to their particular tree and instruct them not to discuss or send any information to any other staff members. Members of each tree must not discuss the transaction in the presence of any other staff members. All such discussions amongst members of the same tree and conference calls must occur in private in a conference room or an office with doors closed. Documents related to the transaction must not be printed except where strictly necessary. Printed documents must not be left unattended on desks in view of others and should never be left in common areas accessible to others (i.e., on photocopiers or in meeting rooms).

Systems and Controls

When a new conflict is identified, Hayfin's Compliance team will review the conflict and discuss it, as appropriate, with members of the Executive Committee and/or the Risk and Compliance Committee, Chief Compliance Officer and the General Counsel or other senior persons. The conflict will be addressed on an ad hoc basis or, where necessary, a specific policy will be implemented. Compliance will record conflicts brought to their attention and the manner in which the conflict is addressed.

Each time the firm launches a new product or business line, the Chief Compliance Officer and General Counsel, or other designee, review potential conflict risks and, where necessary, implement a revised policy to address any concerns.

In accordance with regulatory requirements, a conflicts of interest register is maintained, which records the services carried out that may entail a risk of damage to the interests of investors.

The conflicts register is reviewed by the Firm's Audit and Risk Committee, typically annually, to determine whether any additional key or potential conflicts have arisen and need to be managed or prevented, and if any current conflicts have been resolved and thus no longer need to be recorded in the conflicts register. Conflicts will be additionally reviewed to determine whether they are being effectively managed. The conflicts register summarises the means by which Hayfin manages each conflict.

Hayfin holds a mandatory annual compliance training for all employees. Breach of Hayfin's compliance policies and procedures, including its conflicts of interest policy, is deemed a breach of employment arrangements with Hayfin and may lead to sanction under the firm's disciplinary policy, including immediate termination for cause.

Principle 4: Promoting well-functioning markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

It is in the interests of Hayfin, its investors, and society as a whole to have well-functioning financial markets. As such, Hayfin is an active member in representative bodies such as the Alternative Credit Council, the Principles for Responsible Investment ("PRI"), and Initiative Climat International ("iCI") as of early 2024. Please refer to Principle 10 for more detail on our activity as part of these bodies and relevant subgroups. It is also important for Hayfin to engage with regulators and other important stakeholders to ensure the best outcomes for our investors.

We continually strive to enhance our analysis of ESG risks for the asset classes we invest in. Disruption has emerged as a theme that overlaps heavily with ESG.

Selected (ESG-related) disruptive risks for key industries	
Industry	
Oil and Gas	Emergence of renewable energy ▪ Amid rising concerns about greenhouse gas emissions and climate change, renewable energy sources such as solar and wind now have widespread popular support. ▪ The technologies behind solar and wind power have been emerging fast in recent years, lowering the power generation cost. ▪ With government support for renewable technologies development, solar and wind power generation is expected to grow substantially in the coming decade.
Maritime Services	Increased environmental sustainability ▪ Maritime transport has an inherent exposure to emissions and pollution. Public focus on environmentally friendly technologies such as slow steaming may impose a disruptive risk to the maritime industry. Increased social sustainability ▪ Safety management and crew health and welfare are key social concerns in this industry. ▪ With the development of unmanned autonomous vessels, it may offer an opportunity to improve seafaring welfare and improve vessel safety in general.
Retail/ Services	Increased social sustainability ▪ A disruptive social risk could rise from product quality, safety regulations, price transparency, and customer fairness. As a labour-intensive sector, increasing social concerns about human rights and equality will have potentially disruptive impacts. Technological disruptions ▪ The emergence of technology in e-commerce, payment systems, and big data is reshaping the retail industry and fundamentally disrupting businesses. Digital transformation is happening in every aspect of traditional businesses, from business model to operation formats. It also impacts customer behaviour and supply chains, changing the dynamics of modern retail businesses.
Financial Services	Focus on responsible investing ▪ Sustainable and responsible investing has moved from niche to mainstream in financial services industries. More and more investors put ESG considerations in their investment screening process. The increasing disclosure requirements on ESG matters also push companies in a more sustainable direction for business planning. This trend is subjecting the financial services industry to a certain level of disruption and will cause changes in long-term company strategy.

Selected (ESG-related) disruptive risks for key industries	
Industry	
	▪ The development of digital tools promotes innovations in risk management that enable companies to look beyond current risk capabilities, including ESG risk.
General Industrials	Increased social and environmental sustainability ▪ The key concerns focus on environmental exposure relating to emissions and pollution, and social exposure relating to safety management. More stringent industry regulation may change some operational patterns in this industry.
Food & Beverage	Access to information ▪ Transparency and traceability of ingredients, production, and supply chains to mitigate, widespread customer distrust. Hyper-customised products ▪ Specialised ingredients for additional customer benefits ▪ Non-animal protein for sustainable food production ▪ Advances in alternative packaging products

Sources: S&P Global, Deloitte, McKinsey, Hayfin

Hayfin recognises the responsibility for all market participants to address systemic risks and work internally to reflect the changes we seek through external engagement.

Example: Hayfin's inaugural climate disclosure, climate strategy evolution and key climate risks

In 2023, Hayfin developed its approach to material climate-related risks and opportunities to complement its existing risk management approach. For its funds across a wide range of strategies, Hayfin considers an approach that supports the preservation of capital for its investors. As a responsible investor, Hayfin believes in the importance of integrating climate risk analysis into investment practice, particularly given the belief that climate change, including transition and physical risks, could have significant adverse effects on the value of assets across multiple geographies and sectors. As a result, establishing a formal climate strategy, one which seeks to identify, measure and manage potentially material climate-related risks and opportunities, has been at the forefront of Hayfin's latest developments in its approach to ESG. The outcome of this has been a strengthening of Hayfin's overall risk management approach. Hayfin's inaugural climate strategy supports Hayfin to responsibly manage capital for the long-term. For further information on Hayfin's climate strategy, refer to the section on "Strategy" in this report.

To operationalise its climate strategy, Hayfin has established formal governance structures, as described in the "Governance" section of this report. In managing climate-related risks and opportunities, Hayfin has formalised its approach to raising and discussing these risks in both ESG-related and non-ESG related committees. For instance, key personnel around the business, have direct reporting lines into Risk and/or Investment committees, which help to socialise key concepts and meet deliverables associated with identifying and managing climate-related risks and opportunities. In Hayfin's TCFD UK Entity Report, Hayfin's inaugural climate strategy is outlined, including its implementation and governance, and metrics used to consider exposure(s) to possibly financially material climate-related risks[1].

Hayfin believes climate change could pose a significant financial risk to Hayfin and to the investments it selects and manages as an investment manager. Physical and transition risks could have a materially adverse impact on investment performance in the near- and long-term horizons. Hayfin recognises the importance of integrating climate-related matters in investment decision-making and firm-wide risk management processes

[1] Metrics reported in the section on "Metrics and Targets" presents a range of core climate metrics in accordance with TCFD recommendations and the FCA's ESG Sourcebook for Entity-level reports.

and will continue to review the manner in which material climate risks are assessed, and those posed to the operations of Hayfin.

Hayfin's commitment to preserving investors' capital across its investment strategies is firmly embedded within these values. Identifying and managing climate-related risk exposures is, therefore, considered integral to preserving its investors' capital. The table below outlines some of the key risks identified by Hayfin to its direct operations and investments[2].

Table two - Summary of key risks identified by Hayfin to its direct operations and investments

Risk	*Impact*	*Risk management processes*
Climate risks relating to Hayfin's operations		
Regulatory	▪ Failure to prepare and publish mandatory climate related information, which could lead to adverse regulatory outcomes	▪ Hayfin's Head of ESG, along with external advisers, will monitor the changing regulatory landscape in order to prepare for future developments concerning climate-related disclosure requirements
Commercial reputational and legal risks	▪ Hayfin could face commercial and reputational risks should investors not be provided with the climate-related disclosures they need to meet their own climate reporting requirements. This could expose Hayfin to commercial risks, namely loss of business for future fund vintages ▪ As the effects of climate change unfold in the near-, medium- and long-term, managers of investor capital might face increased scrutiny of diligence undertaken to assess portfolio companies' potential exposure to financially material transition and/or physical risks	▪ Hayfin is committed to collaborating with its investors, and other stakeholders, to understand their expectations and requirements relating to climate-related disclosure, as well as provide, where possible, design solutions for its investors
Climate risks relating to Hayfin's strategy investments		
Acute physical risk exposures in near- to medium-term	▪ Acute physical risks can have significant adverse impacts on business operations. Investment portfolios might be exposed to investments with companies that experience significant disturbance to business operations resulting from severe and frequent extreme weather events. The effects of extreme weather events are likely to differ across sectors and geographies. Investee companies may also suffer from supply chain disruption. More variable, extreme weather events might result in fund valuation write-downs or increased credit risk, for example. Investee companies might be forced to impair or write-off assets, having a detrimental effect on company valuation, or, owing to supply chain disruption, revenues might be materially affected through input costs increases and/or materials shortages	▪ Risks are evaluated across the time horizon within which the asset is held, typically short-term holdings; long-term climate risks are considered outside of the investment holding period.
Commercial and regulatory pressures and	▪ Investee companies may themselves be subject to material regulatory developments and associated compliance costs, depending on the country/ies of their incorporation and business activities and the sectors in which they operate	

[2] Details outlined in Table two is a static representation of possible climate risks to Hayfin's operations and investment practice. These are subject to change over time and will be reviewed annually by the Head of ESG and ESG Steering Committee.

reputational risks	▪ Hayfin's investee companies might be exposed to certain transition risks, namely consumer and reputation risks, although these will be sector, geography and time-specific in nature ▪ Companies might be impacted by evolving consumer preferences, regulatory pressures or strains on reputation owing to an inability or unwillingness to appropriately decarbonise direct and indirect business operations. Loss of consumer confidence could lead to reductions in revenue, whilst regulatory fines might result in material expenses companies must provision for. Transition risks to investee companies, therefore, could have an adverse indirect impact on portfolio valuations across Hayfin fund ranges and, more generally, potentially result in reputational damage to Hayfin	

Hayfin believes that climate change has the potential to affect our investments. As such, we consider it whenever we believe it presents a material risk or opportunity. Climate change, as a component of ESG more broadly, is firmly integrated into our investment process. It is the responsibility of the investment team to analyse material ESG risks, including climate change, and escalate these to the ESG Deal Committee and Investment Committee.

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

- Firmwide Exclusion Policy: All Hayfin strategies, unless otherwise specified in the Policy, exclude activities which are considered harmful to people and the planet, and highly likely to expose Hayfin to significant levels of commercial and reputational risk. Hayfin operates an exclusion list which relates to industries considered materially exposed to climate-related risks, and significantly contribute towards a warming planet. Strategies screen each new potential investment against the Policy, commonly during Business Selection
- ESG deal scoring: Explicitly addresses climate risk exposure of the sector a borrower operates in and how the borrower specifically is exposed to and manages the risk.
- ESG sponsor scoring: Explicitly considers how sponsors engage with companies on climate risk.
- ESG margin ratchets: Used to encourage climate risk awareness, disclosure, and management, where possible.
- ESG annual borrower questionnaire: Explicitly seeks disclosure of emissions and commitment to reduction strategies, including corporate-level decarbonisation targets.

We also monitor the extent to which portfolio companies across our private and liquid credit funds measure and disclose emissions and commit to a well-articulated emissions reduction strategy. We use this as a point of engagement with sponsors and corporate management, where possible.

Specifically, within our Maritime strategy, each investment includes specific targets to be monitored relating to climate risk. This involves measuring scope 1 emissions of invested capital in vessels and air emissions from nitrous and sulphur oxide. This metric is monitored by the Maritime team and is reported to investors annually in the Fund's SFDR Periodic Disclosure.

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

Hayfin recognise that collaboration at an industry level to address systemic risk is of paramount importance. Over the reporting period, Greenheart, a subsidiary of Hayfin Capital Management, continued its partnership with green technology business, Njord, and maritime consulting firm, Marsoft. As part of this ongoing partnership, Njord has designed a bespoke package of fuel-saving technologies on four Greenheart-owned *vessels, to achieve fuel and emission cuts of between 7% to 16%, per vessel. Marsoft quantifies and certifies the CO_2 savings through carbon credits, ensuring Greenheart optimises the financial value of these fuel savings.*

The drydock and relative renewal surveys for one of the vessels were completed 04/2024. The performance improvement retrofits were installed at the same time. Nord and Marsoft have been collaborating with Greenheart and our technical managers during initial phases and since that time in order to continuously collate, review and verify the relevant performance data as part of the agreed process. The process requires 12 months' worth of data from time of retrofits, thus it is expected that the equivalent Carbon Credits will be issued during 2025. Initial feedback from Marsoft is that the vessel is exhibiting a circa 9% improvement in fuel consumption/emissions reduction to date. Greenheart have also added another vessel to this same program with retrofits installed June 2024.

Greenheart views this partnership as a strong demonstration of its commitment to reducing the energy intensity of its fleet of vessels and will continue to install energy-saving devices on Hayfin-owned vessels in future investments. Energy efficiency, fuel efficiency and reduced impact on climate are core objective of the Maritime flagship strategy.

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

Case study: integration of ESG KPIs linked to a manufacturer of dental prosthetics' ambition to reduce emissions, improve Diversity, Equity & Inclusion ("DEI"), and promote responsible and effective governance in its business operations

An opportunity arose within the investment process to include an ESG margin ratchet for one of our primary direct lending deals. Following investment, our ESG Deal Committee, alongside the deal analysts, deal sponsor and representatives from the borrower, identified a number of material ESG risks, which would be the main focus of the ESG margin ratchet. From this we set formal KPIs, referenced in loan documentation, to be improved upon over the life of the loan. Each KPI has an associated trigger test in the loan documentation which reduces margin if tests are met over a defined period. The table below lists the formally agreed ESG KPIs.

ESG risk	***ESG-related KPIs***	***Description***
Climate - Emissions intensity reduction	***Percentage of digital prints versus total dental prosthetics sold***	*Fewer physical moulds would help to decrease GHG emissions from transportation of dental prosthetics. This criterion will be tracked on an annual basis and measured against the company's baseline carbon footprint assessment.* *The company aims to increase the percentage of digitally produced products to 40% of total manufactured prosthetics by 2029.*
Governance – promotion of responsible and effective governance	***Percentage of employees represented by employee representative bodies***	*An increase in the proportion of represented employees in the total workforce will support the promotion of responsible and effective governance. A "represented employee" is one which is associated with a trade union, or employee representation body.*

		This KPI seeks to target, and maintain, a 70% employee representation rate between 2023 and 2029.
Diversity, Equity & Inclusion – reduction in the gender pay gap ratio	***Salary gap between men and women by position and seniority level***	*There is a commitment to establish a formal policy to reduce gender equalities within the company. To support this initiative, the company seeks to actively reduce the unadjusted gender pay gap year-on-year.* *The gap will be computed between the average salary of men and women within same positions and seniority level. Focus made on equal pay between men and women; the absolute gap measured in 2023 was approximately ~€1000. (Exact target not finalised when Hayfin last engaged with management in 2023).*

Note, Hayfin does not guarantee the attainment of its borrowers' ESG margin ratchets but seeks to liaise with company management and deal sponsors to establish ambitious, measurable, and achievable ESG-related KPIs. Hayfin intends to report progress against these KPIs in subsequent reporting to investors.

Case study: integration of ESG KPIs linked to a European pharmaceutical contract development and manufacturing organisation's ("CDMO") ambition to reduce emissions, improve Diversity, Equity & Inclusion outcomes, and reduce inherent risks in its supply chain

Hayfin was presented with an opportunity to invest in a European pharmaceutical CDMO company. We were able to formally set ESG margin ratchets to drive progress relating to the company's climate impact, employee DEI, and increase the number of its suppliers agreeing to, and signing, an ESG charter. The following KPIs were set at a Group level and were established to so support the company in its missions to reduce systemic ESG-related risks:

- *To reduce emissions in line with the Paris Agreement, working towards establishing an approved Science-based Target;*
- *To improve gender equality at the company, primarily focused on reducing the unadjusted gender pay gap, and measure the difference in pay rise;*
- *To increase the proportion of the Group's suppliers having signed "Environmental, Social and Governance" charters, thereby managing environmental supply chain risk.*

Margin reductions are applied annually where the company successfully attains at least one or more KPI, up to a maximum of 7.5bps. Should the company fail to achieve a minimum of one KPI, the company's margin rate will increase by 7.5bps.

In the example above, Hayfin liaised with the sponsors of the deal, 2 private equity managers which Hayfin has strong existing relations with. Engaging with deal sponsors remains important to Hayfin and is viewed as a critical part of promoting better and improved ESG outcomes for deal sponsors' portfolio companies. Engaging with sponsors where Hayfin has strong relationships enhances Hayfin's ability to identify, raise and manage critical ESG-related risks in collaboration.

Developing our internal data systems for gathering, analysing, and monitoring data relating to systemic environmental risks

We acknowledge the importance of data in assessing investments and the increasing demand for credible ESG data to facilitate our ESG investing approach. We also recognise that sourcing good ESG data is more complicated for private market assets as the companies we invest in are typically less advanced in measuring and publishing such data. To address this, we issue an annual Borrower ESG Questionnaire to all borrowers within the latest vintage of our Direct Lending Fund. We gather, analyse, and monitor data relating to climate risk, amongst other important environmental risks[3]. We expect this to increase our ESG data coverage and better prepare us for engagement with borrowers; borrowers' responses also enable Hayfin to fulfil its regulatory reporting requirements under the EU Sustainable Finance Disclosure Regulation ("SFDR").

Firmwide Initiatives

Hayfin also believes in the importance of cognitive diversity for well-functioning financial markets. As such, our aim is to increase, attract, and develop a meritocratic and diverse workforce and to ensure Hayfin's work environment is inclusive and supportive for all employees. We also aspire to be a positive leader and contributor to diversity in the alternative investment management industry and to engage with the community. To reach these goals, we have set a series of initiatives that will be ongoing in the years ahead:

1. Hayfin established a D&I Committee in 2020 to further initiatives that promote cognitive and demographic diversity at the firm. In December 2022, the Committee launched a bi-annual confidential staff survey on staff experiences and views relating to diversity at Hayfin. Results of the survey are used to monitor the impact of D&I policies over the long term and to drive improvements based on feedback. The Committee has also instituted a formal talent acquisition policy that requires the initial pool of candidates for a role to consist of at least 50% diverse profiles. The D&I Committee reports to the firm's Board and Executive Committee with regular updates of progress on all D&I initiatives against an annual scorecard.
2. Throughout the reporting period, Hayfin built on its relationship with Sponsors for Educational Opportunity (SEO), a London-based charity delivering education, training, and mentoring support to young people from underrepresented and underserved backgrounds. Hayfin continued its summer internship programme in partnership with SEO, which focuses on attracting diverse candidates. Thirteen interns were placed across our London and New York offices in 2023 across departments. In 2024, Hayfin has also committed to supporting GAIN, Girls Are Investors, which is an international organisation aiming to support young females enter the financial services industry. Hayfin has chosen to support GAIN to facilitate better access and entry into the financial services, and alternative asset management, for females.
3. Hayfin's Global Women's Initiative ("GWI"), led by Gina Germano (Portfolio Manager and Head of European High Yield & Syndicated Loans) launched in May 2022 and has hosted several internal events since. Diversity of thought and skill are critical elements for Hayfin's growth strategy. In an industry where women are underrepresented, Hayfin's GWI is charged with fostering an environment to propel and retain talented women to successfully meet their career objectives, as well as support the attraction and retention of female candidates. Over the year, the GWI conducted interviews with a wide range of female leaders internally and externally to gather feedback on key challenges Hayfin, and the industry as a whole, faces with the attraction and retention of female talent. The intention is for this to inform practical steps the firm can take with the support of Hayfin's Executive Committee. In March 2024, to celebrate International Women's Day, Hayfin organised a seminar for all Hayfin employees and invited senior females within the industry to discuss their experiences and challenges they have faced throughout their careers to date, and how they overcame, and continue to overcome, these challenges. One topic of discussion focused on the return to work following maternity leave, and helping to raise awareness of the types of support the financial services industry can improve upon, in order to retain female talent.

[3] Note, Hayfin's Borrower ESG Questionnaire is underpinned by the ESG Integrated Disclosure Project ("EIDP"). Questions cover some of the European Principal Adverse Impact indicators ("PAIs"), which allows Hayfin to fulfil our investors' own regulatory requirements.

These initiatives and any future diversity and inclusion initiatives will be data-driven to ensure all actions improve diversity within Hayfin, with dashboards to monitor hiring, promotions, and attrition to track progress.

Finally, in addressing systemic risks specific to private markets, we believe there are limitations to what individual asset managers can achieve in isolation and that collaboration is often an essential and much more effective tool. We have been active members of a number of working groups over the year which have addressed systemic issues specific to credit markets, particularly focusing on joining, and participating, in groups on engagement practice and climate integration in private credit markets. This is further expanded in Principle 10.

Principle 5: Review and assurance

Signatories review their policies, assure their processes, and assess the effectiveness of their activities

Internal review and oversight of policies, processes, and activity

Hayfin has an ESG Steering Committee comprised of senior management, ESG, investment, legal, and client service professionals. The ESG Steering Committee meets monthly to oversee Hayfin's ESG efforts, including reviewing its firmwide Responsible Investment Policy at least annually, or in light of changing landscapes. This Policy is also reviewed on an ad hoc basis following any significant market or regulatory developments. Application of our Responsible Investment Policy is the responsibility of the ESG Steering Committee, as well as all investment professionals.

The ESG Deal Committee, typically led by the Head of ESG, conducts ESG-related training for employees annually with the ESG Steering Committee and oversees the completion of Hayfin’s PRI reporting. The ESG Steering Committee also discusses how the firm can improve to become best-in-class in ESG integration and stewardship across its business lines, identifies new initiatives, and determines implementation for new processes.

In 2019, Hayfin established an Audit & Risk Committee, responsible for implementing and overseeing Hayfin’s risk management framework covering non-investment risk and providing oversight of risk-related procedures, policies, and controls, and assessing their effectiveness. The Audit & Risk Committee meets quarterly (and more frequently as required) to monitor consistency in the application of Hayfin’s risk management framework. The Committee is chaired by an independent, non-executive board member. Other members include Hayfin’s Chief Operating Officer (COO), General Counsel, Chief Financial Officer, COO Private Debt, COO Liquid Debt, one non-executive director, and a shareholder representative. The Audit & Risk Committee reports quarterly to Hayfin’s Board of Directors. In 2023, our ESG governance was enhanced further with the ESG Governance Committee reporting directly to Hayfin's Risk & Compliance Committee twice a year. This reporting line strengthens ESG oversight and offers more breadth for escalation. Our newly established ESG Governance Committee was set up at the beginning of 2023 to create distinction between oversight and implementation of ESG processes. This is a forum for the Portfolio Managers, represented by the Head of ESG, to report on the application of ESG procedures across their respective strategies.

As described in Hayfin’s 2023 submission, Hayfin continues to employ specific ESG-related tools to support the integration of ESG in the investment process across a range of its strategies. For instance, in direct lending and one tactical solutions strategy, Hayfin conducts ESG-related due diligence using ESG deal scoring, ESG sponsor scoring and engagement with sponsors, as well as issuing an annual Borrower ESG Questionnaire to improve ESG data coverage across these strategies and, (direct lending only) the use of ESG KPIs within deal documentation, where possible and practicable.

In late 2023, Hayfin also focused on developing its engagement practice in private credit, formalising its "Engagement Framework" and "Engagement Tool" (refer to Table three). Hayfin's engagement practice is underpinned by raising awareness, prioritising, where possible and practicable, engagement with borrowers who might be deemed "laggards" (where insufficient progress is made to improve the ESG profile of the business). As ESG is used as a tool to identify, monitor, and manage risk, Hayfin believes engagement can support, and complement, traditional investment analysis and portfolio monitoring. Where possible, Hayfin might engage with borrowers and/or sponsors with "best-in-class" ESG practices, conducting dialogue to learn about how these portfolio companies, and deal sponsors, are furthering ESG practice in their sector.

Table three: Hayfin's "Engagement Framework" for Private Credit

Hayfin's Private Credit Engagement approach	
Purpose of engagement	▪ Engagements with borrowers and/or sponsors will focus on a specific, material ESG topic(s). Topics of engagement might include climate change (and emissions), natural resource use, human capital management, Health & Safety, or corruption and bribery, for instance. ▪ Engagement will be undertaken, at least, on an annual basis to discuss a borrower's most material ESG topics, where appropriate and possible. ▪ Further engagement activity might be required to ascertain more information about specific ESG topics, and to track improvement over the life of the loan.
Methods of engagement	▪ Direct dialogue with management; dialogue with sponsors/owners; interaction with other third parties; email exchanges. ▪ Borrower ESG Questionnaire is an engagement tool, as are ESG margin rachets.
Escalation	Example triggers for escalatory engagement could include the following, but is not limited to: ▪ Adverse media, including literature from non-governmental organisations, pertaining to a borrower, specifically relating to E and/or S factors; ▪ Persistently poor (ESG) data disclosure (where material and has been formerly requested on multiple occasions); ▪ Breach of good governance practices, including United Nations Global Compact ("UNGC").
Climate Risk Management	▪ Material climate risks are identified, and managed, throughout a deal's lifecycle, e.g., consideration of climate risks in the ESG Deal Score and deliberated at ESG Deal Committee; **discussions** with borrowers, **where relevant and possible**, on material climate risks; questions about climate (e.g., emissions) are included in the Borrower ESG Questionnaire.

Refer to Principle 7 for a recent case study on an engagement with one of Hayfin's borrowers in the software industry.

Hayfin maintains appropriate policies, processes, and controls, including a Compliance Manual, which are designed to protect the interests of our investors, ensure compliance with applicable laws, and provide the appropriate level of accountability and control systems. As part of Hayfin's Risk Management Framework, Hayfin's Compliance Team has implemented an annual compliance monitoring programme during which it conducts testing to assess the firm's policies, processes, and controls to ensure that they remain adequate and comply with regulations.

Hayfin also has an ESG Deal Committee that meets with analysts to discuss the ESG risk(s) of investments before they go to Hayfin's Investment Committee for approval. The ESG Deal Committee includes members of our investment, legal, ESG, and partner solutions teams. The ESG Deal Committee reviews ESG analysis of the prospective private credit investments, requests further research if required, encourages deeper engagement with sponsors and borrowers, and maintains a database of ESG issues. Where further ESG due diligence is required, the ESG Deal Committee addresses this with the relevant deal team.

External review and oversight of policies, processes, and activities

Hayfin and its funds are audited annually by PwC and have always received clean audit opinions. Mercer provide an annual operational risk assessment which covers Hayfin's responsible investment processes. The results of this review are reported back to Hayfin and shared with investors.

Our responsible investment policies and processes are subject to external benchmarking through the PRI's annual assessment process. Additionally, we are supported by our external legal advisors on our ESG integration and stewardship policies and processes. Our legal advisors also conduct training sessions on upcoming regulatory changes and share ongoing conversations regarding industry best practises. Any significant developments to our ESG integration processes are reviewed by our legal advisors who provide continuous challenge.

In addition, our investors are increasingly challenging us on our ESG strategy, use of tools and processes, which we welcome and see as a way to strengthen and develop as an asset manager. We carry out ongoing calls between our ESG team, existing investors, and investment consultants who act as informal third-party reviewers, providing valuable feedback and criticism which we factor into our processes, where possible.

On an annual basis, we review our main ESG integration processes to ensure we are taking a proportionate but ambitious approach to ESG integration across our funds. For example, at the beginning of 2024, the Private Equity team and ESG function reviewed Hayfin's approach to ESG private equity sponsor due diligence in advance of undertaking our 2024 sponsor engagements. Recognising that both climate change and biodiversity loss were areas of importance to Hayfin and investors, we enhanced our sponsor ESG due diligence questionnaire to account for this and made it a focus during conversations with sponsors. Specifically, Hayfin intends to start gathering basic data about sponsors', and their portfolio companies', approach to stemming the rate of biodiversity loss, and what possible impacts and dependencies these businesses have on nature and biodiversity. Hayfin is only at the very beginning of its journey in considering material biodiversity-related risk and will continue to monitor the private markets landscape in this topic.

Hayfin ensures that its stewardship reporting is fair, balanced, and intelligible by subjecting it to an internal review process. A wide range of individuals of varying levels of seniority are involved in drafting this report. This helps ensure a balanced approach. At a more granular level, borrower engagement case study reporting is provided to investors which is drafted by the ESG function and overseen by the Investor Relations team. This again ensures accuracy and clarity. We aim to communicate engagement through simple examples.

As further described under Principle 6, Hayfin regularly reports to its investors on investment activity, financial updates, and ESG considerations, giving them clear insights into Hayfin's stewardship activities. Hayfin also produces annual PRI reporting summarising our responsible investment accomplishments for the year. We believe that transparency is key and, as such, we publicly disclose our UK Stewardship Code 2020 report on our website (www.hayfin.com/esg) and share our PRI report and assessment with investors upon request. We also engage with our investors to ensure that our reporting meets their requirements. We believe that being transparent and promoting open communication contributes to fair and balanced reporting.

As a lender rather than an owner for most investments, Hayfin is limited in its ability to exert control over the companies we invest in. We do not normally have voting rights and therefore we do not have a voting policy in place.

Example: Refinement of our processes through external engagement

Over the reporting period, we engaged with a range of different data providers to assess their climate data solutions for private debt. While solutions for private debt markets are developing, this appears to be at a relatively slow pace. We evaluated the validity of the offerings of two ESG data providers, one to help with *identifying ESG risks of borrowers and issuers in our private and liquid credit strategies, and the other to explore solutions to gather and aggregate borrower responses from Hayfin's Borrower ESG Questionnaire.*

Third-party provider focus	Objective	Overview of discussions and process	Conclusions
ESG risk analysis	• Efficient identification of sources of information useful to determine, and monitor, a company's ESG risk profile	• Discussions focused on the use of generative artificial intelligence to perform data scrapping on Hayfin portfolio companies across private and liquid credit strategies. • Separate trials by the ESG team and investment teams were undertaken over several months to identify, understand and assess the types of information and data available using the platform.	• Hayfin considers artificial intelligence may be helpful to support a greater efficiency with which certain aspects of data analysis can be undertaken, along with proprietary assessments. • Hayfin will continue to see how artificial intelligence can be used to efficiently gather information on its portfolio companies to lessen the manual burden on the deal team.
ESG Questionnaire data aggregation	• Modernise, using a technological solution, the aggregation and calculation of ESG data and indicators	• Discussions focused on modules to support Hayfin's issuance and collection of responses to its ESG questionnaire to private credit borrowers. ○ The platform issues the user's ESG questionnaire to portfolio companies and manages the responses from borrowers by providing specialist expertise. ○ Data is aggregated and outputs displayed in graphics and charts for the end user.	• Efficient data collection and aggregation will serve to improve Hayfin's approach to reporting and analysis of ESG-related data and trends over forthcoming years. • Seeking out an appropriate solution remains a near-term objective for the business.

More broadly, we engaged with our service providers to keep informed of ESG and stewardship best practices and trends within the industry.

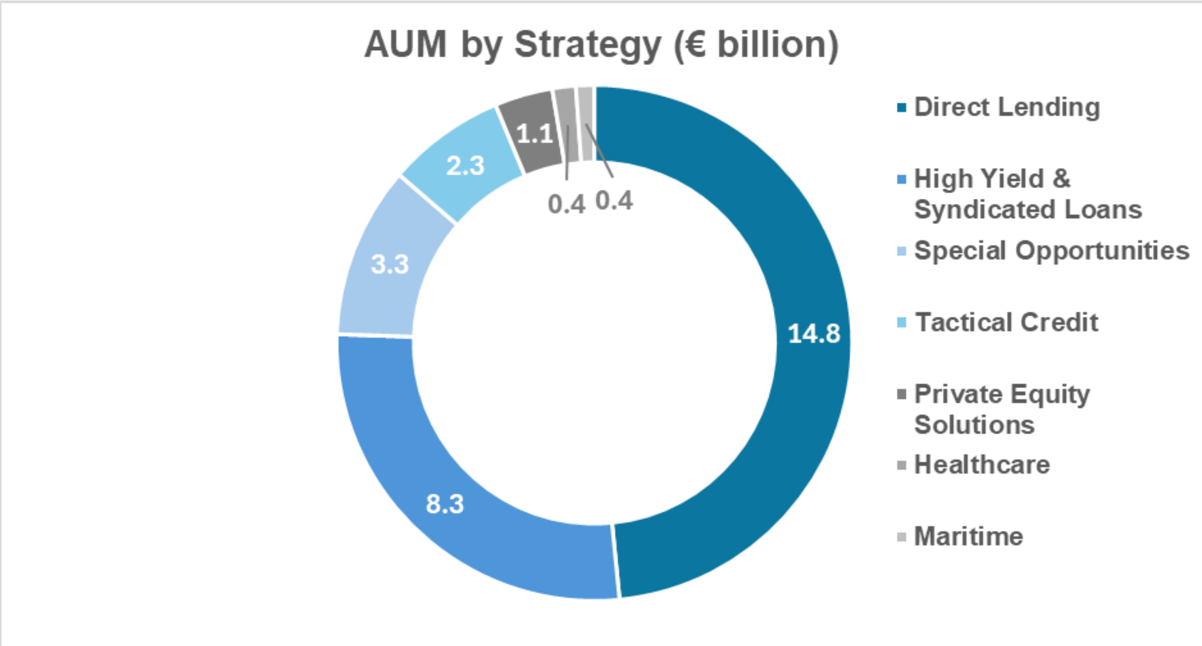
Principle 6: Client and beneficiary needs

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

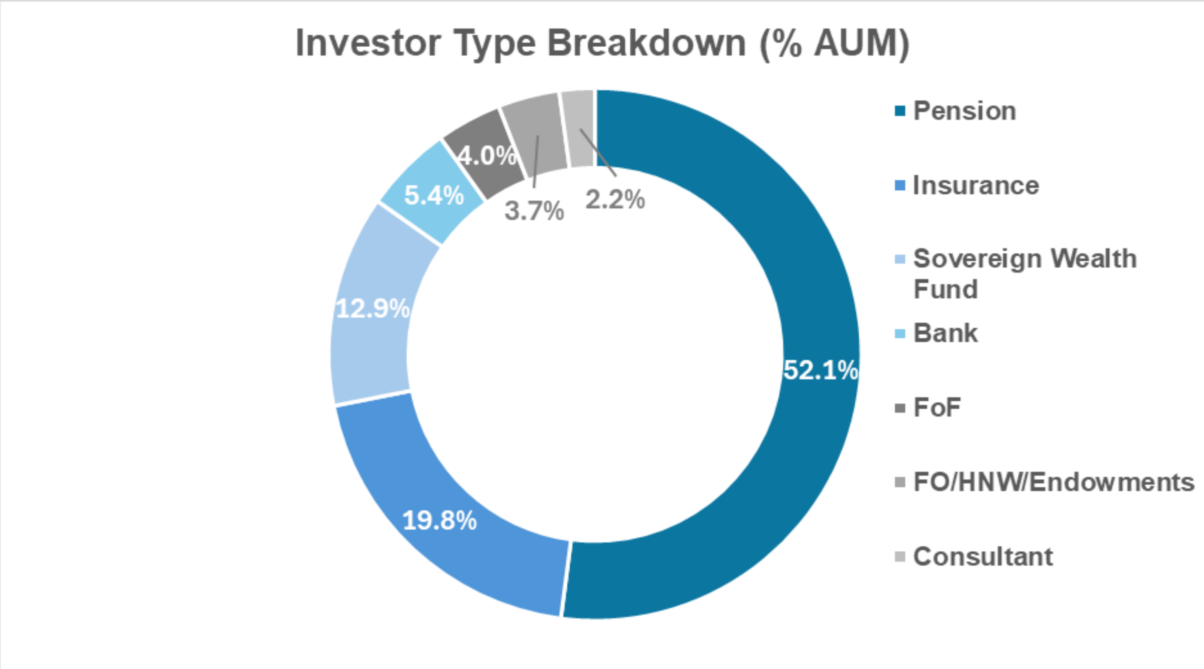
Hayfin is one of Europe's leading private credit alternative asset managers with c.€30 billion in assets under management as of 31 March 2024. Hayfin is headquartered in London, with twelve additional offices globally including in Frankfurt, Munich, Stockholm, Luxembourg, Madrid, Milan, Paris, Dubai, New York, Tokyo, San Diego and Singapore. The Hayfin team comprises 228 employees including 100 investment professionals, specialised in sourcing, structuring, and managing credit investments. Since its inception in 2009, Hayfin has extended loans totalling c. €45 billion firmwide to 500 companies predominantly in Europe.

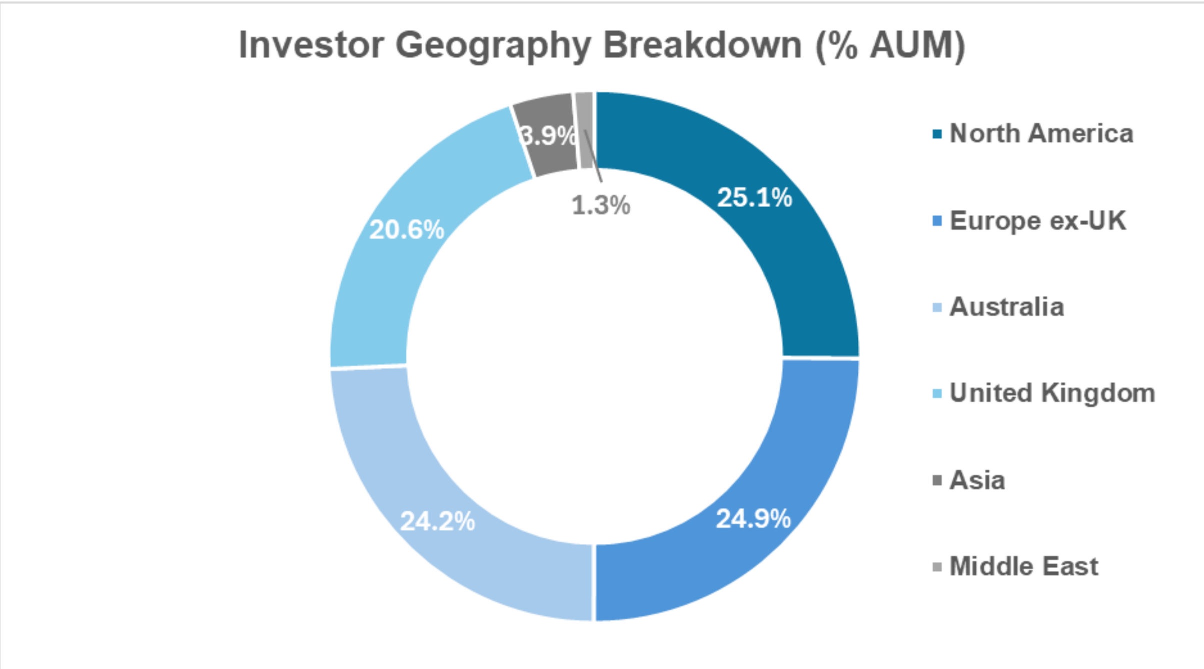
Hayfin manages four core, complementary and cohesive credit investment strategies: Direct Lending, Special Opportunities, Tactical Solutions, and High Yield and Syndicated Loans. In its private credit strategies, Direct Lending and Special Opportunities, Hayfin focuses on generally less liquid, “off-the-run” investment opportunities where there is less competition to provide capital and does not rely on relationships with investment banks for allocations of broadly syndicated leveraged loan and high yield investment opportunities. Hayfin has developed industry and structuring expertise across a variety of specialty investment themes and situations.

A breakdown of our assets under management across our strategies is below:



Due to the nature of the private credit asset class, all of our investors are institutional. A breakdown of our investors by type and geography can be found below:





The investment period for our Private Credit strategies is between three and four years, depending on the strategy, with another three or four years in harvesting periods. These timeframes have been designed because of our historical experience within our strategies, time to investment realisations, and because we believe they are the most appropriate to achieve the target returns for each strategy. This timeline also aligns with the objectives of each strategy, such as generating consistent senior secured cashflows in Direct Lending or unlocking value in complex situations for Special Opportunities.

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

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

- Summary of Investments and Portfolio Update: A line-by-line track record is provided for both realised and unrealised investments. The report includes updated figures on amount invested, called, carrying value, realised proceeds, and expected gross IRR at investment level and at fund level, alongside the fund's deployment and repayment profile, and portfolio characteristics.
- Portfolio Breakdown: To promote transparency, this report aims to give as much details as possible on every investment in the portfolio. This document reports both quantitative and qualitative characteristics, including updates on companies' financials like LTM EBITDA, Enterprise Value, and Leverage.
- CEO Letter: CEO letters are released through Hayfin's administrator portal. This document includes commentary on the Fund's new positions and realisations over the quarter, together with any relevant updates at Firm level.
- Audited Financials: The Fund is audited annually as of 31 December, with audited financials made available within 90 days after year end.

Finally, all our funds have an Advisory Board composed of representatives of selected investors. The Advisory Board advises the General Partner in our funds and resolves issues involving potential conflicts of interest. The Advisory Board meets bi-annually to review the fund's performance, potential conflicts of interests, and fund expenses.

Amendments to the fund's Limited Partnership agreement require Ordinary Consent (the written consent of Investors whose aggregate Investor Commitments represent more than 50% of Total Fund Commitments), Two-Thirds Consent (the written consent of Investors whose aggregate Investor Commitments represent more than 66.66% of Total Fund Commitments), or Special Consent (the written consent of Investors whose aggregate Investor Commitments represent more than 75% of Total Fund Commitments), depending on the materiality of the change.

Across all strategies, Hayfin emphasises risk before return, focusing on capital preservation and loss avoidance through comprehensive research on our investments, a rigorous investment process, and active monitoring. As a firm, we are committed to teamwork, transparency, and continuous improvement.

Responsibility is embedded in our culture. We focus on analysing material ESG issues as part of our overall risk assessment of an investment. In doing so, we are making more informed investment decisions, better protecting against downside risk, fulfilling our fiduciary duty, and protecting the firm's reputation. We embed ESG not only within our investment process, but also within our corporate strategy. By considering ESG at a corporate level, we are contributing to a more sustainable world for our stakeholders, including our investors and their beneficiaries, our shareholders, our borrowers, and our employees.

Disclosure

We regularly look to our investors for guidance on how we can meet best practice standards. We actively seek investors' views to ensure we are understanding their evolving needs. A recurring theme of such discussions has been investors' desire to allocate capital towards businesses that enable a more sustainable economy.

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

__Case study: Using investor expectations to enhance sustainability-related analysis in private credit__

An existing investor communicated to Hayfin of their ambition to drive development in how their private credit managers assess, and report, sustainability credentials of underlying investments and portfolio companies. Various representatives across ESG, Risk, Partner Solutions and Legal Execution discussed over many months how best to address the investor's requirement. The outcome was as follows:

- *Hayfin designed a framework which would support its sustainability analysis, complying with certain regulatory requirements. The Framework requires users to consider the positive contribution of potential borrowers during pre- and post-investment.*
- *A back-testing exercise was undertaken to assess the existing exposure to companies in the latest direct lending vintage which had attributes which passed the Hayfin Framework. This exercise enabled Hayfin to consider, and determine, whether there would be sufficient information and data to commit to the investor's ambition and objective.*
- *Following this assessment, Hayfin presented its findings to the investor along with a range of materials that could be used to report on borrowers' compliance with Hayfin's Framework, to assess sustainability. Hayfin received a positive response and will be pursuing this strategy in one of its private credit strategies later in 2024.*

Hayfin takes its role as steward of its investors' assets seriously and, in maintaining that role, recognises its duty to keep informed of its investors' ambitions in responsible investment. In collaboration, Hayfin seeks to support its investors' needs, where possible and practicable.

__Case study: Using investor expectations on disclosure to enhance ESG data gathered and reported to LPs__

Over the course of the year, we continued to receive a number of requests from our investors to report on the European Commission's Principle Adverse Impact Indicators (PAIs), particularly in relation to the underlying investments within the latest vintage of our Direct Lending Fund. Hayfin's annual Borrower ESG Questionnaire, as underpinned by the ESG Integrated Disclosure Project ("EIDP"), supports the gathering and assessment of specific PAIs. During the reporting year, Hayfin has been able to report on its latest direct lending fund's exposure to the PAIs to its investors as well as report in accordance with the European ESG Template ("EET").

The gathering of ESG-related data via its questionnaire to borrowers has supported Hayfin to understand where potential ESG-related risks might exist in the portfolio. In the second year of collection, Hayfin continues to be impressed by the quality and volume of information and data its borrowers provide in response to the Questionnaire. Areas Hayfin will continue to engage with borrowers and sponsors, where possible and practicable, includes emissions and climate-related risks, supply chain management and labour and human rights (including adherence to international standards), and biodiversity loss.

The above examples show that working with our investors and listening to their views can result in enhancements to our processes that ultimately lead to better risk management and disclosure. We continue to seek investor views on an ongoing basis.

In addition to the aforementioned EET, Hayfin continues to provide bespoke reporting for our investors, upon request. Since 2021, we include ESG sections for investment case studies, where we report the main ESG considerations of each investment memo, and the points raised in ESG Deal Committee discussions.

We complete annual PRI reporting summarising our responsible investment accomplishments for the year and how we have implemented the PRI principles in our activities. We share our PRI report and assessment with our investors upon request.

Hayfin's Code of Ethics sets out the general fiduciary principles and standards of business conduct the Firm and its employees abide by. It is Hayfin's policy to act in the best interest of its investors and on the principles of full disclosure, good faith, and fair dealing. Hayfin recognises that it has a fiduciary duty to its investors. Acting as a fiduciary requires that Hayfin, consistent with its other statutory and regulatory obligations, acts solely in the investors' best interests when engaging in activities on behalf of investors. Hayfin and staff members must seek to avoid situations which may result in potential or actual conflicts of interest with their duties.

Principle 7: Stewardship, investment, and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

ESG considerations are analysed for each investment across all strategies. The degree to which ESG is considered depends on the strategy and level of control Hayfin can exercise for a given strategy, described below.

Integration of ESG and stewardship in private credit strategies

Business Selection

ESG integration begins at the business selection stage when the investment team screen for key ESG risks. At this stage, we screen for whether the investment is captured by the Hayfin Exclusion Policy, in which case the investment is rejected. The analyst adds a qualitative comment to the business selection memo and, if material risks are identified, they are discussed further with the relevant portfolio managers. A concluding comment on ESG risk is included in the business selection meeting minutes.

ESG Deal Committee

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

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

Investment Approval

The ESG Deal Committee reviews the ESG analysis, encourages further research if necessary, and elevates certain issues for discussion in Hayfin's Investment Committee. The ESG Deal Committee minutes, including any follow up actions for the investment team (e.g., to formally set ESG KPIs or to acquire further clarification on certain issues), are included in the final Investment Committee memo. Hayfin's Investment Committee is ultimately responsible for ensuring that material ESG issues have been considered and adequately addressed before approving investments.

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

Industry Database of ESG Issues

Industry	Environmental	Social	Governance
Retail/ Services	▪ Product recall, consumer education, and initiatives aimed at meeting applicable regulations and industry standards ▪ Safe and proper disposal/ recycling of materials ▪ Sustainable supply chain management throughout the production cycle	▪ Labour code of conduct to ensure proper working conditions, labour practices, and safety requirements ▪ Ethical standards to ensure consumer rights and protections	▪ Transparency in business operations and production processes
Healthcare	▪ Energy efficiency in operations ▪ Sustainable supply chain and product management ▪ Using recycled materials for packaging, product take-back, and end-of-life recycling	▪ Safety control over clinical research organisations with respect to welfare of research subjects ▪ Effective company policies and procedures to promote product safety ▪ Compliance with applicable regulations ▪ Healthcare accessibility and equality considerations ▪ Initiatives to provide access to healthcare products/services in developing countries ▪ Ensuring diversity of trial participants and medical practitioners ▪ Pricing transparency and fairness to patients ▪ Reasonable price increases and fair pricing in different regions ▪ Protection of customer/patient health records	▪ Proper disclosure of product recalls ▪ Ethical marketing fully representative of potential safety risks and side-effects of products ▪ Oversight of controlled substance prescriptions dispensation ▪ Code of conduct related to conflict of interest, corruption and bribery, and other unethical business practices
General Industrials	▪ Managing environmental impacts associated with project design, siting, and construction processes ▪ Managing biodiversity impacts including air emissions, water discharge, waste management, natural resource consumption, soil erosion, and hazardous chemical usage ▪ Appropriate disposal of hazardous substances, pollutants, and contaminants ▪ Development of products with energy-conserving designs and efficient resource utilisation ▪ Focus on decarbonisation, climate and transition risk, and emissions reduction in long-term planning ▪ Disclosure of energy efficiency and water efficiency performance improvements	▪ Company commitment to workforce safety matters including implementation of safety protocols, safety training, and maintaining a safe work environment ▪ Compliance with applicable regulations ▪ Efforts to minimise worker exposure to harmful substances	▪ Management and control to prevent corruption and bribery throughout the value chain ▪ Code of conduct related to conflict of interest, corruption and bribery, and other unethical business practices ▪ Transparency in business operations and production processes ▪ Adequate disclosure of risk, suitability, investment alternatives, and conflicts of interest to investors
TMT	▪ Energy efficiency and renewable energy usage, particularly for energy intensive sectors (e.g., data centres) ▪ Appropriate waste management and disposal practices, particularly for hardware-intensive businesses ▪ Ensuring the ethical sourcing of metals and other required inputs, particularly for hardware-intensive businesses	▪ Management practices and guidelines on use of customer data ▪ Managing the concentrated nature of telecommunications, cable, and satellite companies ▪ Responsible use of IP protection to balance innovation without restricting competition ▪ Systemic or economy-wide disruption may be created if the network infrastructure of telecommunication services	▪ Appropriate cybersecurity and privacy protocols to ensure consumer and client protections

HAYFIN

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

Source: Sustainable Accounting Standards Board (SASB), Hayfin

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

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

Considerations	ESG Deal Score	Description
Investability of deal	5	Credit excluded based on non-quantifiable ESG-related risk and/or subject to Hayfin firmwide exclusion policy
	4	Credit subject to mandate exclusion, i.e., investable but not eligible in one or more of the HYSL Fund, CLOs or DLF SMAs (e.g., adult entertainment, gambling, payday lending, recreational marijuana, weapons manufacture, involvement in oil sector)
Sector specific ESG risks	3	Investable credit, not subject to exclusions but one or more material ESG risks identified or moderate to high level of ESG risk present in industry (e.g., energy/heavy industrials/chemicals), combined with average to weak issuer ESG score.
	2	Some ESG issues identified. Combination of low to moderate ESG risk within industry with good issuer ESG score, or, medium to high ESG industry risk offset by strong issuer ESG score.
Issuer/borrower specific ESG risks	1	No material ESG issues. Low level of ESG risk within industry and strong issuer ESG score.

The fourth vintage of our Direct Lending Fund reports in accordance with Article 8 of the EU Sustainable Finance Disclosure Regulation ("SFDR"). As part of this, Hayfin commits to reporting on the implementation of the above tools to investors annually and aims to demonstrate progress year-on-year.

Portfolio monitoring and exit

Where material ESG matters have been identified, the investment analyst responsible engages with sponsors and/or management on an ongoing basis to monitor these issues. Our investment teams will also selectively engage with third-party providers to dig into certain aspects of ESG diligence, if deemed necessary. Material ESG developments are included in the commentary for the monthly portfolio reviews and, where appropriate, brought to the attention of the ESG Deal Committee for incident recording and the Investment Committee for consideration. Portfolio monitoring is guided by our internal tools and external frameworks including SASB.

Engagement with investee companies

Engagement is viewed as an integral feature of asset stewardship[4] best practice. Engagement activities can range from the very active style (being a controlling owner and having direct influence on company strategy) to a form of engagement which seeks to nudge corporate behaviours towards more sustainable practices (for instance, using margin ratchets to incentivise improved corporate conduct across a range of E, S and/or G topics), depending on investment strategy and nature of the underlying assets.

During the reporting year, Hayfin has sought to develop and formalise engagement activity and has established its Engagement Framework. This outlines engagement activity for private credit investments. For further information regarding Hayfin's engagement framework, see below and refer to Sections 4.1 and 5.

Example: Hayfin's Engagement Framework for Private Credit

Hayfin's Engagement Framework outlines its strategy to liaise and engage with borrowers in its private credit strategies. This framework is designed to support investment teams to undertake discussions with borrowers and/or deal sponsors on ESG topics in a consistent and systematic manner. It is also a process required to demonstrate compliance with SFDR Article 8 requirements.

The framework is underpinned by the following considerations:

- There are two forms of engagement activity:
  - Normal course of portfolio monitoring and pre-investment due diligence;
  - Escalatory engagement.

- Engagement is not simply about 'outcomes' (noting their importance), but also involves having constructive dialogue with borrowers. It is a process which can be used to identify and manage any potentially material ESG-related risks. Engagement activities might include raising borrowers' awareness about certain ESG topics or possible risk exposures, requesting improved data disclosure about a certain ESG topic (such as climate change risks and opportunities), and encouraging borrowers to adopt better ESG practices through financial incentives; and,
- Where material ESG matters have been identified, the responsible investment analyst will seek to engage with sponsors and/or management on an ongoing basis to monitor these issues. If deemed severe and/or could result in a breach of the 'Good Governance' Principle[5], the responsible analyst must escalate the matter to the relevant PM and Committee(s).

The rationale behind this strategy primarily lies in the limited ability of lenders to 'influence' positive change within borrowers. Rather, Hayfin has determined a set of levers and tools to potentially promote and encourage certain ESG practices. Incentives might be used, where appropriate, namely ESG margin ratchets, including discussions with management and/or deal sponsors about appropriate KPIs; engagement activity might also focus on education and training for management teams, and/or improved corporate reporting.

Example: Engagement with private equity sponsors – private equity and/or private and liquid credit strategies

[4] Also, a PRI Principle (2), 'active ownership', where 'ownership, in this sense denotes the management of all portfolio assets.
[5] Required for funds disclosing in line with Article 8, SFDR.

As part of its direct lending and private equity strategies, Hayfin undertakes an assessment of its deal sponsors' ESG initiatives and priorities. Members of Hayfin's ESG and/or investment teams engage with sponsors to explore their ESG philosophy and strategy, and how the sponsor delivers these to improve portfolio companies' operational sustainability and performance. Typically, discussions might cover ESG priorities, methods to integrate specific ESG considerations at portfolio companies, and corporate reporting.

Another technique used to gauge a sponsor's ESG position is Hayfin's proprietary Sponsor ESG Questionnaire. These are issued to deal sponsors across private credit, the co-mingled HYSL Fund, and/or partners of the private equity solutions team. Questions are broken into E, S and G factors, and seeks to determine a sponsor's strengths and weaknesses pertaining to the incorporation of ESG into the investment process, in addition to corporate-level initiatives pursuing greater operational sustainability. Results are factored into Hayfin's proprietary scoring system, which rates sponsors according to the responses across Environmental, Social, Governance and corporate-level initiatives. An overall ESG score (0-100), where 100 represents a 'leader', is assigned to each relevant sponsor, and indicates the strength of a sponsor's ESG capabilities, engagement activities and commitment to ESG at the corporate level. Where the score is deemed insufficient, or where there has been a downward trend in the sponsor ESG score year-on-year, members of the ESG or investment teams will seek clarification from the sponsor.

Furthermore, for private equity fund investments, investment teams actively engage with GPs to improve investee company ESG practices. Engagement with sponsors might involve an exploration of ESG philosophy, policy and procedures. ESG initiatives, including those undertaken to improve a portfolio company's sustainability credentials, are overseen by Hayfin's investment team. Progress is monitored through an annual survey, which members of the Private Equity Solutions team issues.

Example: Collaborative Engagement

Collaborative engagement can be an effective means to drive change and encourage improvements in ESG practice in the financial sector. Networking, discussing and meeting up with fellow market participants, whether through the PRI or another initiative, benefits Hayfin in its objective to continuously strive for best practice in the private markets industry. Membership also demonstrates Hayfin's commitment to sharing experiences, helping others to improve the industry's incorporation of ESG factors, and contribution to policy and regulation favourable for select market participants, including asset owners.

Hayfin is involved in, and is a signatory of, a range of networks and initiatives, which aim to influence multiple channels and stakeholders. Collaboration and engagement with external industry initiatives involve some of the following:

- The PRI's Private Debt Advisory Committee ("PDAC");
- The Initiative Climat International ("iCI")
- The Alternative Credit Council's Responsible Investment Working Group;
- The Global Maritime Forum's Getting to Zero Coalition.

Hayfin will continue to seek the most appropriate forums to discuss and drive change in ESG within the financial services industry. Over time, this might require an assessment of current memberships or exploration of new ones. Refer to Principle 10 for further information on these initiatives.

Example: engaging with the Sustainability Officer at a UK software company

Strategy: Direct Lending

Engagement target: UK-based Software company

Person(s) involved: Company's Sustainability Officer

Rationale: Follow-ups post receiving the company's inaugural Sustainability Report (issued in January 2024)

Topics discussed: climate strategy, emissions disclosure (and corporate transparency/reporting), and DEI

Date of engagement: January 2024

Summary of interaction

- **Climate strategy** –
  - Building on its formally approved SBT, developing a formal decarbonisation plan (includes an established Travel Policy and commitment to procure 100% electricity from renewable sources)
  - Core focus on engagement with global suppliers to reduce emissions
- **DEI** –
  - Employment of a Chief People Officer to bring visibility of human capital topics and concerns at management level, ensuring a considered approach
  - DEI strategy to be formulated over 2024 with recent hire, a DEI specialist
  - Initiatives for 2024 include global awareness programmes about different causes, e.g., LGBTQ+, Black Awareness Month, International Women's Day
- **Corporate transparency** -
  - Continued efforts to disclose sustainability practices and behaviours in 2024; consideration of including disclosures in line with TCFD pillars in 2025, but lack experience and knowledge of the reporting framework

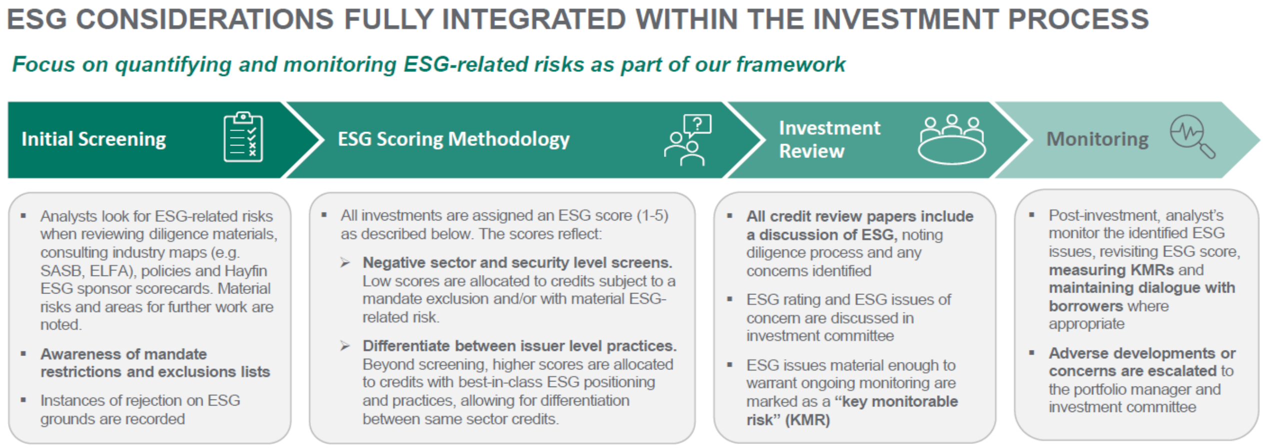
Next steps/outcomes

- Hayfin's ESG team offered to support the company's Sustainability Officer in determining whether the company could develop a strategy for climate disclosure, e.g., including reporting in accordance with TCFD recommendations.
- A follow-up discussion will take place later in 2024 or early 2025, specifically to share more ideas about TCFD disclosure and note any outcomes.

Integration of ESG and stewardship in liquid credit strategies

In contrast to private credit where we are typically a majority lender, we are often a minority participant within our liquid credit strategy. For such investments, our ability to engage with borrowers is more limited. Nevertheless, we look to engage directly with borrowers at the time of issuance and through ongoing discussions with management. Private equity sponsors have ownership stakes in most of the companies we invest in, and therefore, the liquid credit analysts are also able to utilise our internal sponsor due diligence tools.

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



The High Yield and Syndicated Loan Fund discloses in accordance with Article 8 under the EU's SFDR. As part of this, Hayfin commit to reporting on the implementation of the above tools to investors annually and aim to demonstrate progress year-on-year. We also report on the greenhouse gas emissions and net zero alignment of issuers across the fund, and the ESG deal scores, using our proprietary scoring tools.

Integration of ESG and stewardship in private equity strategies

Pre-Investment / Due Diligence Phase

Hayfin Private Equity incorporates ESG-related matters into its investment due diligence and decision-making process. Such topics are included in Investment Committee Memoranda and discussed with the Investment Committee.

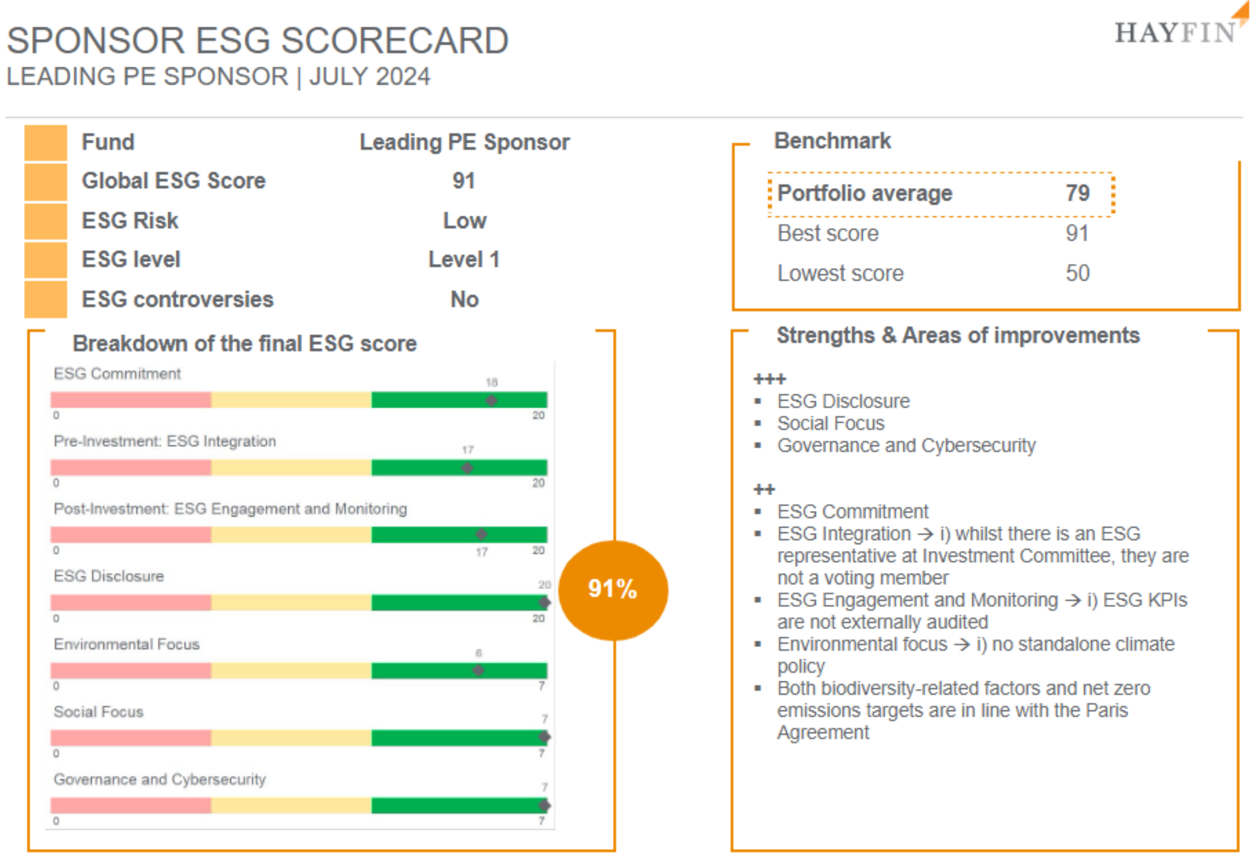
Sponsor ESG Due Diligence

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

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

The Sponsor ESG Score is presented by the investment team at the Investment Committee in the form of a summarised one pager (Sponsor ESG Scorecard) including i) a breakdown of the final Sponsor ESG Score; ii) benchmarking against other GPs in the portfolio; and iii) a summary of GP strengths and potential areas of improvements (see below). The Sponsor ESG Scorecard has been developed to assess the ESG integration and engagement capabilities of the GPs we work with, as well as their overall commitment to responsible investing.

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



At the time of reporting, we have begun our 2024 ESG engagements with sponsors and have noted improvements in processes across a number of the sponsors we have significant exposure to, particularly on disclosure and climate risk management. Year-on-year comparisons show overall improvements across the board; the weighted portfolio average score is 79 for FY2023 (+2% vs FY22 scoring).

Asset ESG Due Diligence

For all direct asset investments (i.e., co-investments and GP-led secondaries), Hayfin Private Equity has developed an ESG Pre-deal Assessment Framework (Checklist) aimed at identifying ESG risks with particular focus on i) environmental factors; ii) social factors; and iii) governance factors (with an emphasis on cybersecurity).

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

If conflicts with our Responsible Investment Policy are identified, the Investment Committee together with the deal team defines a clear action plan to resolve these before or shortly after the investment.

Ownership / Monitoring Phase

To manage ESG risks and value creation opportunities during the investment period, Hayfin Private Equity have implemented an oversight programme to monitor ESG at the GP and portfolio company level, through a selection of KPIs provided by its invested GPs.

Sponsor ESG Scorecard Annual Update

Every year, Hayfin Private Equity reassesses the ESG commitment of its Private Equity Managers with the re-submission of the Sponsor ESG Questionnaire to all its invested managers. The deal team is responsible for updating the Sponsor ESG Scorecard once GPs return the questionnaire. The deal team is also responsible for engaging with the GP to address any potential ESG risks and to promote continuous improvement in the Sponsor's ESG engagement efforts.

Annual ESG Survey for Portfolio Companies

Every year, Hayfin Private Equity submits to its Private Equity Managers an Annual ESG Survey which aims to collect ESG data and monitor the progression of ESG matters within portfolio companies. The results of the survey are analysed and presented in the following documentation:

- Q4 Client Reporting (sent to external investors)
- Q4 Portfolio Monitoring (discussed internally with the Investment Committee)

Following the internal review, the deal team is responsible for engaging with the GPs on identified ESG issues raised during the Q4 Portfolio Monitoring. In addition, the Private Equity team selects an annual theme to engage with all its invested GPs (e.g., climate risk has been selected as a theme for engagement in 2023), to raise awareness on a particular topic the Hayfin Private Equity team deems important.

In the case of private equity investments, the Investment Committee closely analyses the ESG sponsor scorecard, suggesting any improvements to process directly to the sponsors to ensure consistency with our broader library of GP ratings, and identifying key ESG topics to be addressed by the investment or ODD team with the private equity sponsor before approval.

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

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

For a more thorough explanation for the different levels of engagement depending on the type of investment (Private Equity, Private Credit or Liquid Credit), please refer to our answer in Principle 9.

Example: Engagement with Private Equity GPs

Throughout the reporting year, Hayfin's private equity team and ESG function engaged with certain General Partners, where Hayfin has investments either in its private equity strategies or as sponsors in its flagship direct lending fund. Engagement is typically undertaken to understand GPs' responsible investing strategy, including policies, thematic priorities and integration processes, as well as reporting practice. Hayfin also typically asks GPs about key priorities to improve the sustainability profiles of portfolio companies. During the reporting year, the ESG function engaged with one of Hayfin's Private Equity GPs as part of its annual review to better understand the GP's sustainability-related priorities. The GP explained that with the arrival of its first Sustainability Manager, the business was exploring ways to improve its sustainability-related strategy, including the addition of new tools for enhanced data collection, and aggregation, from its portfolio companies. Hayfin and the GP agreed to continue open dialogue on how best to improve informational flow on ESG matters pertaining to Hayfin investments in the near-term.

Principle 8: Monitoring managers and service providers

Signatories monitor and hold to account managers and/or service providers

Service Providers

Hayfin has a formal due diligence selection process for any new third-party service providers. The process includes a review of the relevant service areas, including process, technology, quality of staff and senior management, cybersecurity risks, operational and financial controls, any risks around GDPR and data protection compliance, any other applicable laws, rules or regulations, and the counterparty's commitment to Hayfin as a client. In addition, Hayfin conducts reference and background checks on the team members.

Hayfin has service level agreements ("SLA"s) in place with many companies, incorporating KPIs to help oversee the services provided. In addition to ongoing daily and weekly interaction, Hayfin's CFO and members of Hayfin's Finance and Operations team participate in quarterly meetings to discuss SLAs and KPIs. In addition, members of Hayfin's Finance and Operations teams perform onsite visits on at least an annual basis. Hayfin also receives copies of these counterparties' Internal Controls Reports such as International Standard on Assurance Engagements ('ISAE') 3402, their disaster recovery and business continuity plan, and cybersecurity policies.

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

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

External Managers

Hayfin interacts with private equity sponsors through both its private equity and credit strategies, since many of these sponsors have ownership stakes in our credit investments. We monitor the sponsors to ensure that they incorporate best stewardship practices into their services. As further described under Principles 7 and 9, our investment teams across private credit, liquid credit, and private equity create a sponsor scorecard in which they rate the sponsor on ESG metrics. In areas where sponsors are identified as being laggards, where practicable and possible, the Investment team and/or Head of ESG directly engages through a physical meeting or video conference call to communicate scope for improvement.

Example: Engagement with Private Equity sponsors we work with

Following our sponsor ESG due diligence process described in Principle 7, we engaged with several of the sponsors we have exposure to on both the private equity and private credit side of our business during the reporting period. One sponsor, who owns a company we have lent to in Hayfin's flagship direct lending strategy, was deciding upon whether to publish a Taskforce on Climate-related Financial Disclosure ("TCFD") Report given they were not in-scope of the Financial Conduct Authority's Climate Disclosure rule. Hayfin discussed how it was preparing to report against the TCFD pillars in accordance with the FCA's disclosure rule, and key priorities for early 2024. Priorities included establishing a Climate Policy, becoming a member of the iCI and undertaking climate scenario analysis in the form of a heatmap in the inaugural UK Entity Report.

In raising awareness to deal sponsors, Hayfin has the opportunity to demonstrate good practice and to persuade sponsors to consider disclosing further information about climate risks analysis and integration to their investors and lenders of their portfolio companies. Although Hayfin recognises it cannot influence whether a sponsor will disclose in accordance with TCFD recommendations, it seeks to use engagement as a means to raise awareness to deal sponsors as to why it's important to gather information pertaining to climate risks and opportunities.

As discussed in Principle 5, over the year we investigated the services of two ESG-related data providers to explore the role of artificial intelligence in aiding the identification of potentially material ESG risks of borrowers and issuers in Hayfin's private credit and liquid strategies, respectively. The other provider Hayfin engaged with over the course of the reporting period, noted in Principle 5, included the exploration of the digitisation of questionnaire issuance and data aggregation following responses from Hayfin's borrowers in its flagship direct lending fund.

Principle 9: Engagement

Signatories engage with issuers to maintain or enhance the value of assets

Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over the companies. However, Hayfin seeks to engage on ESG matters in all circumstances. Through engagement, we strive to increase transparency of information, raise awareness of ESG issues and encourage better ESG practices. The level of engagement depends on the type of investment.

Private Equity

Hayfin has a private equity team that invests in a fund of funds structure. As part of their process, the team engages with private equity sponsors to understand their ESG philosophy, policies, and procedures. This process and the corresponding sponsor scoring output is described under Principle 7 in detail. The engagement continues throughout the life of the investment with quarterly update calls.

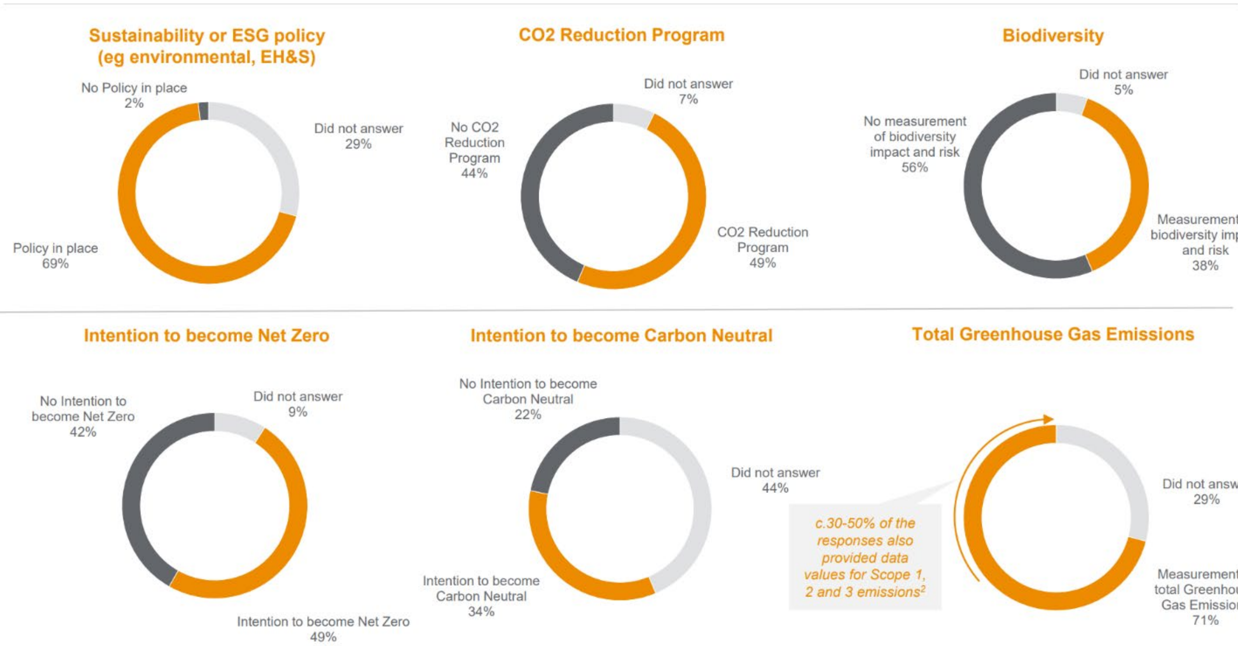
In addition to our sponsor scoring and engagement, we have implemented an oversight programme to monitor ESG at the portfolio company level through an annual survey requesting a selection of KPIs. In 2023, we received responses from most private equity portfolio companies to whom we sent the survey. Note, these statistics represent an aggregation of portfolio companies from Hayfin's two private equity funds.

- Compared to our 2022 ESG Survey, we have increased the scope of the questionnaire with additional KPIs on environmental metrics, including a focus on biodiversity and nature. Hayfin requested its private equity GPs to disclose information pertaining to the identification of biodiversity and nature-related dependencies, impacts and risk exposures at their portfolio companies.
- Compared to 2022, the aggregated results of the survey show improvements in some key KPIs:
  - *Environmental*: 60% of portfolio companies have an official program to decarbonise operations (vs. 26% in 2022); 37% of portfolio companies intend to achieve net zero by, or before, 2050 (vs. 27% in 2022).
  - *Social:* the number of portfolio companies with formal whistle-blower policies and/or procedures has increased by 9% from 84% in 2022 to 93% in 2023; 83% of portfolio companies have staff dedicated to sustainability and/or ESG (vs. 77% in 2022).
  - *Governance*: relative to 2022, there were fewer recorded incidents of cybersecurity breaches at portfolio companies in 2023.

Private Equity Funds Portfolio Monitoring

The following graphics and charts are representative of one private equity fund managed by Hayfin; data is dated as at 31 December 2023 and has been gathered using Hayfin's Private Equity ESG Survey. Note that the data received by Hayfin has not been verified/assured and Hayfin is reliant on those populating the survey to input robust and accurate data. We do believe that these charts are indicative of trends and progress.

Environmental

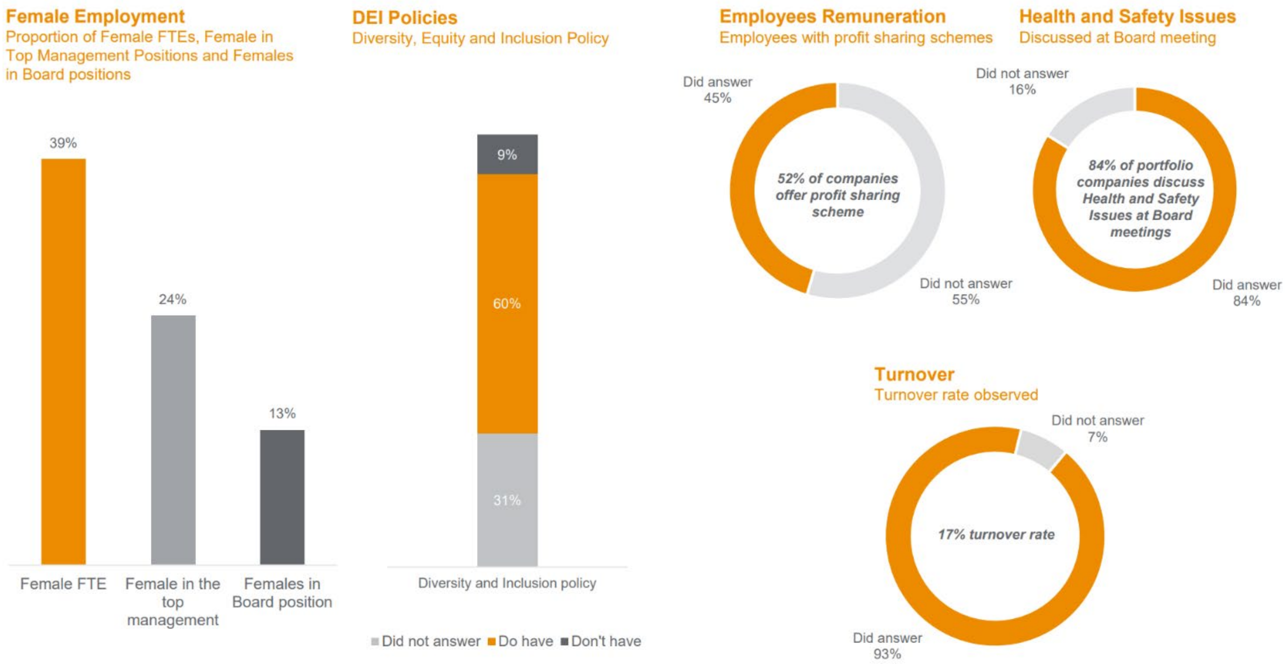


Environmental Incidents: No environmental incident reported on the period for all the portfolio companies that answered the question.

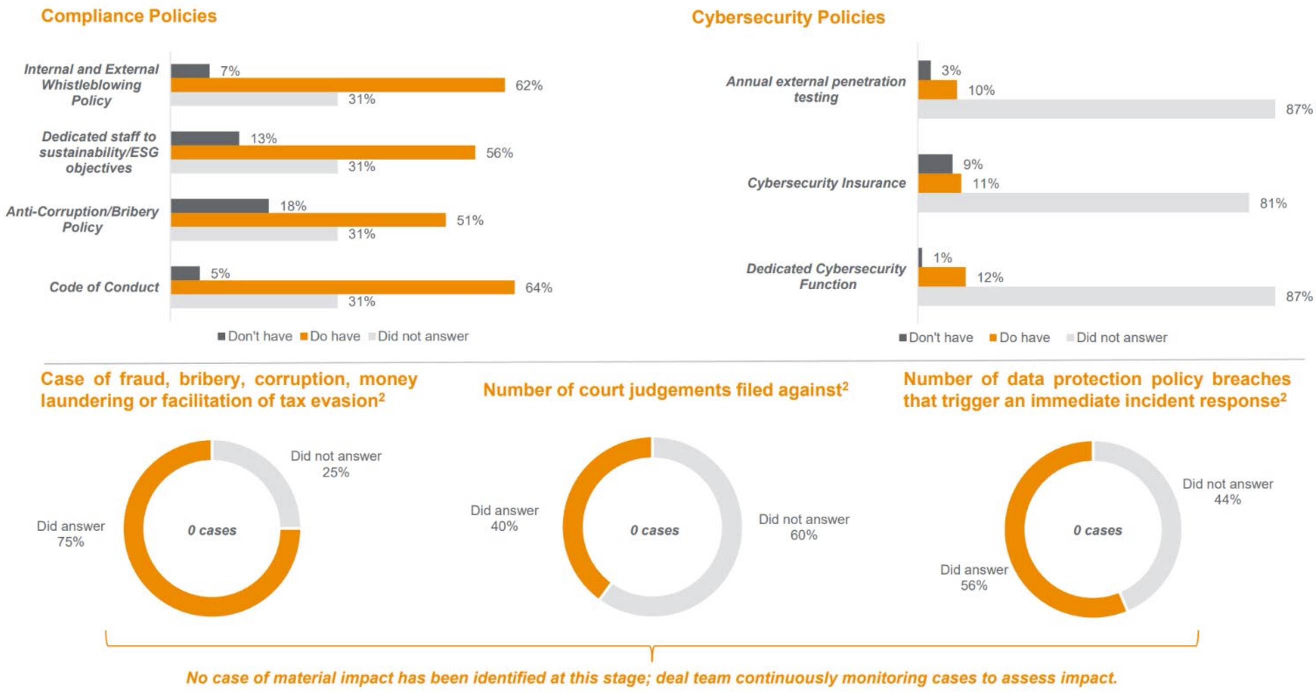
[1] Of the responses received (from 82% of the portfolio companies that measure total greenhouse gas emissions) 97% of responses were data values (rather than "yes" / "no").

[2] From the data responses received: 29% Scope 1 data responses; 47% Scope 2 data responses; 39% Scope 3 data responses.

Social



Governance



Private Credit

Many of the sponsors we have a relationship with on the Private Equity side of our business have ownership stakes in our credit investments (private and liquid). Therefore, a strong synergy exists between our private equity and our credit teams, whereby the latter have access to internal research on private equity sponsors as part of their investment diligence.

Furthermore, within private credit, we are usually the sole or largest lender, which allows us to exert some influence over our borrowers. Our private credit analysts may further engage with the sponsor to request more information, dig deeper on certain issues, elevate concerns, and/or encourage improvements regarding specific borrowers. For investments where there is no private equity sponsor involved, the analysts will engage directly with our borrowers to understand their approach to ESG, request more disclosure, and influence ESG practices where possible (e.g., through the use of with ESG margin ratchets based on 3-5 set KPIs). Governance is a key issue for non-sponsored investments. Where possible, we actively engage with management teams to understand their organisational structure and culture, and third parties to conduct background checks on management.

Hayfin has an ESG Deal Committee as described in our response to Principles 2 and 7. It is mandatory for analysts to discuss ESG risks for each investment before they go before Hayfin's Investment Committee for final approval. The ESG Deal Committee encourages a deeper level of engagement wherever possible. Engagement activity is tracked, and progress monitored for reporting to our investors.

In late 2023, Hayfin also focused on developing its engagement practice in private credit, formalising its "Engagement Framework" and "Engagement Tool" (as referenced in Principle 5 and Principle 7). Hayfin's engagement practice is underpinned by raising awareness, prioritising, where possible and practicable, engagement with borrowers who might be deemed "laggards" (where insufficient progress is made to improve the ESG profile of the business). As ESG is used as a tool to identify, monitor and manage risk, Hayfin believes engagement can support, and complement, traditional investment analysis and portfolio monitoring. Where possible, Hayfin might engage with borrowers and/or sponsors with "best-in-class" ESG practices, conducting dialogue to learn about how these portfolio companies, and deal sponsors, are furthering ESG practice in their sector.

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

Engagement Examples	
Topic	Engagement Content and Outcomes
Increasing transparency	▪ Annually we request from sponsors their ESG policies and additional reports (e.g., environmental) if these are not provided with initial due diligence materials. ▪ Based on discussions with several LPs, we decided to include questions on PAIs in our ESG borrower questionnaire.
Raising ESG awareness	▪ If we do not already have an ESG rating from our PE team for a sponsor with whom we would like to partner for financing, our investment team will contact them to set up a diligence session. ▪ During the reporting period, we had calls with several of the PE sponsors we work with to provide them with feedback from our ESG sponsor scoring. We plan to have more calls with sponsors over the course of the year.
Influencing practice	▪ Within our maritime practice, we routinely engage with shipowners regarding fuel consumption and emissions, encouraging not only compliance with targets set by IMO, but also ambitions to exceed regulatory requirements. ▪ During the year, Hayfin also continued its engagement with the Global Maritime Forum's Getting to Zero Coalition. The Coalition is committed to getting commercially viable deep sea zero emission vessels powered by zero emission fuels into operation by 2030 and to move to full decarbonisation by 2050.

Where Hayfin is the majority shareholder of an asset

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

Example: Company where Hayfin are the majority owner

In Hayfin's last submission, Hayfin reported that it had become the majority shareholder of a company that Hayfin lent to several years ago. In 2022-23, and throughout the reporting period, Hayfin, as a member of the Board, continued to engage with senior management on ESG topics, where practicable. Of particular focus during the reporting year has been DEI and employee turnover. Owing to the nature of business operations, a construction company, the company has found it difficult to attract and retain female talent. During 2024, it was reported only 19% of employees identified as female. As a board member, Hayfin has been pushing the company towards good practices to ensure diversity and inclusion measures are actively taken.

Outcomes - one outcome is that the borrower established a Professional Equality and Quality of Life at Work Agreement; other examples of improved workplace accessibility include the adaptation of workstations for employees with known disabilities.

Hayfin will continue to support improvements in workplace diversity and inclusion, promoting better working environments for all its employees, and in effort to retain talent.

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

Engagement for cross-learning benefits

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

Environmental

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

Social

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

Governance

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

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

Maritime

Over the reporting period, in an effort to reduce greenhouse gas emissions and improve air quality across the vessels we invest in, we continued to take actions similar to those carried out in 2022 and early 2023, and include the following actions:

- worked constructively with all technical and crewing managers to fully assess what improvements can be made during operations and the upcoming dry dockings in 2024;

- implemented a switch from conventional lights to LED lighting on two vessels in the fleet. We expect these changes to result in a fuel consumption saving and, in turn, a reduction to overall emissions in the coming years;
- installed freshwater fountains onboard all our container vessels, thus significantly reducing the use and disposal of plastic;
- carried out feasibility studies for deadweight tonnage (“DWT”) increase on all our container vessels, with successful outcomes of improvement of Energy Efficiency Existing Ship Index (“EEXI”) and Carbon Intensity Indicator (“CII”) indicators, with structural work to be carried out during dry docks in 2024;
- piloted a data gathering and analytics service (“SmartShip”) on board our bulker in 2023, to capture real data and identify performance improvement options (technical and operational) and related efficiencies in fuel consumption and reduction in greenhouse gas emissions;
- carried out a feasibility analysis on the suite of actions that can be taken during the upcoming drydocks that will support at least a 5% reduction in fuel consumption and hence a 5% reduction in CO2 and NOX emissions. Hayfin continues to work with green tech business Njord and maritime consulting firm Marsoft; this partnership enables the team to make technical adaptations to its vessels to improve energy efficiency. This collaboration continues to bring together a bespoke package of fuel-saving technologies with, initially, four Greenheart-owned vessels and Marsoft’s GreenScreen programme to quantify and certify CO_2 savings through carbon credits. This is further described in Principle 4.

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

- installation of freshwater fountains onboard all our container vessels, which minimised the need for physical loading and discharging;
- commenced working with a third-party to inspect vessels and carry out audits on board with questionnaires to crew members. The results were disclosed in the Fund’s SFDR Periodic Disclosure for 2023. We aim to benchmark the results against best practices and introduce specific initiatives and rewards for improvement suggestions on Greenheart Management vessels. We also commenced work with a Human Resources specialist to compare the three management partners we work with and identify areas for improvement.

High Yield and Syndicated Loans

Example: Engagement in Hayfin liquid credit strategies

Company description	Issue description	Issue category	Engagement method	Status	Engagement outcome	Result
Global online payment processing company	Participation in company ESG assessment with external stakeholders.	Social / Climate risk	Direct engagement with company’s IR, ESG and consultants via phone call. The company reached out to Hayfin investment team to understand what could be done to improve carbon intensity. We identified alternative social issues as more material than the issues raised by the corporate. Relative to other issuers, this company had a low carbon	Ongoing	Company noted and appreciated our engagement and is working towards publishing their first ESG report during 2024	Hold

			intensity and therefore we believed greater improvements could be made via strengthening governance around regulatory compliance.			

Due to the syndicated nature of the loans within our liquid credit strategies, we have reduced ability to influence the direction of corporate strategy with respect to ESG relative to other Hayfin managed assets. For this reason, our HYSL case studies describe a higher-level engagement as compared to Maritime and Direct Lending.

Principle 10: Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers

Hayfin is an active member of several collaborative initiatives. In addition to being a signatory to the UN PRI since 2018 and a supporter of the TCFD since 2021, Hayfin has, over the last 12 months, engaged with other investors and stakeholders to drive change on specific issues where we recognise that collaboration is more effective to drive that change. Some of the issues we have focused on include the lack of ESG data available to lenders and the evolution towards carbon neutrality. Below is an overview of continued collaborative engagements we took part in over the reporting period to address these issues:

1. Alternative Credit Council

The Alternative Credit Council ("ACC") is a global body that represents asset management firms in alternative credit. We are part of the ACC's Responsible Investment Working Group. The Working Group is focused on the following:

- **Investor education:** There is often a lack of consistent investor expectations when it comes to ESG requirements. The ACC has established a joint asset manager and investor forum to facilitate knowledge sharing and investor education on core private credit topics, of which ESG will constitute a priority.
- **Data capture from borrowers:** Members of the Working Group would like to capture more consistent and relevant data from borrowers using standardised industry templates.
- **Supporting members:** The Working Group benefits from peer-based discussions. The ACC supports members through the sharing of information and best practices and establishes dialogues with other industry bodies.
- **Consultations:** The ACC coordinates responses to consultations on behalf of its members to support our shared objectives.

Example: reviewing progress in data collection from borrowers with peers

Hayfin participated in AIMA's ESG Roundtable in early 2024 to discuss progress made in the industry to gather ESG-related data and information using the ESG Integrated Disclosure Project ("EIDP"). Feedback was given by Hayfin and other members of AIMA's Responsible Investment Working Group around the following topic areas:

- Response rate from borrowers and/or sponsors and up-take by managers;
- Strengths and weaknesses of the IEDP; Possible improvements over time (regularity);
- Comparisons with ESG Data Convergence Initiative ("EDCI") and future EIDP-EDCI collaboration;
- External assurance processes, whether required in future for investors and how to navigate the assurance of borrower data.

Hayfin raised with the group the improvement in the overall response rate in 2023 versus 2022 in its flagship direct lending fund and noted the EIDP had been helpful in stimulating engagement with borrowers on ESG-related subject matters. Digitisation of data collection process was also discussed in this forum, something Hayfin is considering in the near-term to improve the efficiency of data aggregation and analysis.

2. UN Principles of Responsible Investing

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

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

We also separately responded to the PRI's consultation and workshops in November 2023, "Progression Pathways, exploring key issues for the future of responsible investment; the PRI's vision, mission and purpose; and the value they provide to signatories This consultation followed the review in early 2023, "PRI in a Changing World", building out possible 'progress pathways' for signatories to report on different elements to their responsible investing strategy. This consultation also aimed to ask present options to reduce reporting burdens on signatories. Hayfin used the consultation as a means to understand what future PRI reporting requirements could possibly evolve over the near-term, and how Hayfin's own reporting can be adapted to those requirements to maintain our status as a signatory. There were also opportunities to raise concerns and questions to members of the PRI in smaller workshops; Hayfin took advantage of this to gather further information about the practicalities of the pathways, especially for private credit investors.

3. Initiative Climat International ("iCI")

iCI is a climate-related initiative for private markets participants. Hayfin joined this initiative in February 2024, seeking to access a network which could support its understanding of climate-related risks and opportunities in the private credit industry, and support its development of good practice integration of these consideration across a range of its strategies. As part of its development in this theme, Hayfin joined the iCI's Private Debt Working Group to collaborate with its peers and gain a greater understanding of what good practice might look like for the asset class. Hayfin seeks to join initiatives which can drive innovation in its own approach and to meet investors' expectations.

Example: Collaborative engagement to provide guidance to the market

As a member of the Initiative Climat International ("iCI"), Hayfin participated in the Private Debt Working Group from February 2024. The workstream Hayfin supported covered a formal feedback review of the Institutional Investors Group on Climate Change's ("IIGCC") private credit guidance for considering climate and net zero. The IIGCC requested members of the iCI's Private Debt Working Group provide critique of a draft of the guidance to be included in the organisation's Net Zero Investment Framework 2.0 ("NZIF"). As part of the group providing feedback, Hayfin was involved in the following:

- Reviewing the complete draft guidance and identifying areas to provide further clarity and/or explanation;
- Provide the Chair of the iCI's working group with feedback in a meeting with other group members.

Following the iCI's feedback to the IIGCC, Hayfin discussed the review of the consultation and the final guidance paper to Hayfin's ESG Steering Committee, where the Engagement and Alignment targets were discussed in mid-2024. Hayfin will continue to support the work of the iCI and seek to further discuss the appropriateness of the IIGCC's guidance for private credit in the forthcoming months.

4. Global Maritime Forum

Hayfin continues to be a member of the Global Maritime Forum, whose main objective is to shape the future of global seaborne trade to prioritise sustainable long-term economic development and human wellbeing. Through collaboration, the forum is working on initiatives including the Sea Cargo Charter which establishes a common baseline to assess and disclose whether shipping activities are aligned with climate goals and the Poseidon Principles, which is a new global framework for responsible ship finance. The forum also provides opportunities for continued engagement with a strong network of shipping stakeholders to exchange opinions, ideas, and best practices. Through our participation, we have deepened relationships with partners (charterers, managers, flag authorities etc.) to support commercial discussions around investments in greener, performance-enhancing technologies across our fleet of maritime assets.

During the year, Hayfin also continued its engagement with the Global Maritime Forum's Getting to Zero Coalition, an alliance of 200 organisations within the maritime, energy, infrastructure, and finance sectors, supported by governments. The Coalition is committed to getting commercially viable deep sea zero emission vessels powered by zero emission fuels into operation by 2030 and to move to full decarbonisation by 2050.

During the reporting period, Hayfin has also undertaken select collaborative engagements with third parties on select topics. Hayfin undertook these engagements to learn from other parties and help address challenges

Engagement Examples	
Topic	Engagement Content and Outcomes
Integration of climate risks and targets in private credit	▪ Key issue to address was how private credit managers can integrate climate risks into investment practice and processes, during pre-investment due diligence and post-investment management of assets. ▪ We engaged with members of the Institutional Investors Group on Climate Change ("IIGCC", "the Group") in early 2024. Discussions with the IIGCC's Investment and Implementation department focused on the integration of climate risks in private credit; Hayfin was given an update regarding the Group's inaugural private credit climate targets. These targets relate to a manager's engagement and forward-looking alignment classifications of portfolio investments. ▪ The IIGCC also informed Hayfin its purpose to broaden collaboration with other climate-related initiatives, including the Initiative Climat International ("iCI") is a near-term priority, alongside providing other guidance to private credit managers seeking to maintain a "best-in-class" approach to climate risk integration and stewardship practices with borrowers. ▪ Hayfin will continue to engage, where possible and practicable, with the IIGCC to further develop its awareness and understanding of climate-related concerns and how to appropriately manage these issues for private credit strategies.

we are facing in furthering our ESG efforts going forward.

The following table summarises an engagement with the Institutional Investors Group on Climate Change ("IIGCC"), an initiative supporting the financial services industry to integrate climate-related considerations in investment practice, including stewardship and a recent focus on private credit. For further information regarding the IIGCC's guidance for private credit, refer to the above section, "Initiative Climat International".

For further examples of collaboration with external initiatives, refer to the case studies included in this Principle on the PRI and iCI.

Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers

Hayfin avoids investing in countries, sectors, and issuers based on ESG and reputational concerns, such as weapons, thermal coal, and countries against which there are sanctions in place. Any proposed investment involving persons that could result in negative public or market perception regarding Hayfin's business practices (whether true or not) are regarded as posing a reputational risk to Hayfin. Reputational risks may arise in various circumstances and there can be no exhaustive checklist of risk factors. However, key issues we look out for include:

- non-sponsor-backed businesses or businesses with a major individual shareholder;
- businesses operating in geographies or industries with high levels of corruption;
- businesses that have been subject to legal proceedings or investigations that raise reputational considerations; and
- businesses in which politically exposed persons have an economic or property interest, or with which a politically exposed person is otherwise associated.

As a general rule, enhanced due diligence may be required in respect of geographies and industries that historically have a heightened risk of corruption considerations. Industries with heightened risk that may require enhanced due diligence include, but are not limited to, construction, natural resources, oil and gas, petrochemicals, shipping, and transportation.

Where a perceived reputational risk to Hayfin has been identified, the investment team immediately consults with the firm’s General Counsel and Chief Compliance Officer (or a designee) to determine whether, as part of Hayfin’s due diligence process, external background checks and/or other actions are required on the relevant companies and individuals involved.

Enhanced due diligence where these geographies and/or industries are involved may include:

- background checks on the companies and persons involved;
- enquiry as to whether the target company, its management, and shareholders/stakeholders demonstrate knowledge and awareness of applicable anti-bribery laws and a culture of compliance;
- enquiry as to the existence of written compliance policies and procedures;
- diligence of investigations, legal proceedings, penalties, and other enforcement action that may have been taken against the target company, its shareholders and other stakeholders and management; and
- obtaining enforceable contractual protections in transaction documentation specifically reference sanctions/anti-bribery laws.

Hayfin is committed to compliance with EU and US sanctions laws and applicable economic sanctions laws of other countries in which it operates. Hayfin has implemented the following process to address sanctions compliance issues:

- Red flag screening: The responsible analyst identifies whether there exists any business exposure associated with sanctioned countries. Where such exposure is identified, the responsible analyst notifies the General Counsel, who will determine which persons and entities need to be screened via Hayfin’s sanctions software screening tool.
- Enhanced screening: Where Hayfin proposes to acquire a controlling equity stake in a company, or where a proposed debt investment is distressed and there is a reasonably likely scenario where Hayfin ultimately acquires a controlling equity stake, the legal team undertakes screening of the company, its directors and senior management, key stakeholders and shareholders, and key third parties, including suppliers and customers.

Where a sanctions compliance concern has been identified, the investment team immediately consults with the General Counsel and Compliance, which will determine whether the firm can proceed with the investment and assess the need for securing commitments, conditions, representations, warranties, and/or indemnities to address relevant sanctions compliance concerns.

If ESG and reputational risks increase for an investment in the portfolio, the investment team will discuss with Hayfin’s ESG Deal Committee and Investment Committee, and we will determine our options for reducing this risk, including exit if necessary. Where material ESG risk factors are perceived to contribute towards the deterioration of an investment, deal analysts will also discuss with members of the Special Measures Committee. This committee's primary purpose is to discuss credits which have deteriorated in quality, and measures that could be taken to resolve and/or reduce the level of potential financial risk posed to Hayfin and its investors. ESG Deal Committee might support in the presentation to Special Measures alongside the deal team, where applicable and appropriate.

Example triggers for escalatory engagement could include the following, but is not limited to:

- Adverse media, including literature from non-governmental organisations, pertaining to a borrower, specifically relating to E and/or S factors;
- Persistently poor (ESG) data disclosure (where material and has been formerly requested on multiple occasions); and
- Breach of good governance practices, including United Nations Global Compact ("UNGC").

During the reporting period, there were no recorded activities escalated associated with material ESG risk factors. Hayfin monitors potential or actual breaches, listed above, throughout the life of the loan in private credit strategies, as well as in its liquid credit strategies and private equity managers. The normal course of engagement, as guided by Hayfin's Private Credit Engagement Framework, referenced in Principle 5, guides analysts to undertake a holistic assessment of potentially material risk factors, including ESG, throughout the life of the loan or holding period of an asset.

Hayfin is a lender, rather than an owner, for most investments. Therefore, we are limited in our ability to exert control over the companies. Nevertheless, we seek to engage with our investee companies and escalate deterioration internally and with management teams in all circumstances, where relevant and practicable.

For our liquid credit strategy, we have developed an engagement framework which is used by the investment team to guide a structured approach to engagement with issuers. The framework prompts the investment team to consider various issues throughout the course of engaging and to clearly articulate engagement objectives and outcomes. Some sample engagements can be found under Principle 9.

Occasionally, we take equity stakes in companies, or we end up owning equity due to deterioration of an investment. In such cases, we recognise there is more we can do.

In 2018, Hayfin hired an operational due diligence specialist to focus on conducting operational diligence on private equity sponsors and liaising with investors who are conducting their own operational diligence on Hayfin. Subsequently, we expanded the role to include performing operational diligence on companies where we own a majority equity stake within our credit strategies. A component of this diligence is assessing ESG integration and stewardship issues. We summarise below a questionnaire that we have used for escalation purposes over the past year with companies we have an ownership stake in.

Ownership ESG Questionnaire and KPIs	
General	▪ Do you have a company ESG policy?
Environment	▪ Do you have an environmental policy? ▪ Do you have a recycling policy / initiative? What is the % waste recycled? ▪ What is the percentage of disposed hardware that is recycled? ▪ Do you monitor your electricity consumption (kWh)? ▪ Are there any initiatives to reduce electricity consumption (e.g., LED lights, installing automatic lighting controls)? ▪ Do you have a programme to reduce carbon dioxide emissions? ▪ Do you know the firm's total carbon dioxide emissions? ▪ Do you have an initiative to become carbon neutral? How? ▪ What is the average travel cost per employee?
Social	▪ Do you have a diversity policy / equal opportunities / discrimination policy?

Ownership ESG Questionnaire and KPIs	
	▪ What is the % of women FTEs? ▪ Do you have HSE (health, safety, and environment) procedures? ▪ Has the firm paid charges, fines, or penalties in respect of breach or non-compliance of any health & safety laws, standards, or regulations and/or breach of any labour laws, standards, or regulations? If yes, please provide details
KPIs	▪ Annual employee turnover ▪ Voluntary turnover ▪ Percentage of women FTEs ▪ Percentage of women in middle management ▪ Percentage of women in top management ▪ Absenteeism rate ▪ Sick days (FTEs) ▪ Employment growth ▪ Percentage of employees with either profit sharing or bonus schemes Number of reported accidents at the workplace
Governance	▪ Do you have a Code of Conduct, anti-corruption policy, whistleblowing policy, modern slavery policy? ▪ Is employee industry or regulatory training conducted annually? ▪ Has the firm paid charges, fines, or penalties in respect of fraud, bribery, money laundering or facilitation of tax evasion?
Data protection	▪ Do you have a company data protection/privacy policy? ▪ Do you have a dedicated cybersecurity function? ▪ Have employees received basic data protection/privacy training?
KPIs	▪ Percentage of personnel who received annual information and security awareness training ▪ Number of security incidents ▪ Number of data protection policy breaches that trigger an immediate incident response ▪ Number of reported data protection policy breaches related to IT security
Other fraud, abuse and legal KPIs	▪ Number of copyright disputes and infringements ▪ Number of fraud cases ▪ Number of reported cases of corruption ▪ Number of court judgements filed against

To date we have not had to exit any investments due to escalation, which we believe is a testament to the thoroughness of the ESG integration in our diligence and pre-investment ESG integration process.

Principle 12: Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities

Risk management is critically important at Hayfin. All investments are regularly monitored by the investment team, who are responsible for:

- continuous monitoring of comparable companies, market/industry events and news, and discussions with market participants; and
- preparing a monthly monitoring report, which includes a comparison of financial performance versus the investment case and prior periods; a re-evaluation of risk factors, including ESG, and trigger events; updates of key credit metrics, industry, and competitor developments; and a proposed internal risk rating of the investment, based on performance.

All private credit assets are assigned a risk weighting which is reassessed as part of monthly monitoring:

RC 1 – Performing above expectation

RC 2 – Performing at expectation

RC 3 – Performing below expectation (Heightened monitoring applies here)

RC 4 – Watchlist (Heightened monitoring applies here)

RC 5 – Problem asset (Heightened monitoring applies here)

Where an investment has materially underperformed and in other appropriate circumstances, the situation is presented and discussed at a formal review meeting for watchlist credits, by Hayfin's Special Measures Committee. This is attended by certain members of Hayfin's Investment Committee, chaired by the Chief Credit Officer and, where appropriate, the full Investment Committee together with the relevant analysts.

Hayfin believes that early detection results in more informed judgements on sector trends and ultimately investment decisions. Hayfin looks to actively manage risks in its portfolio by engaging regularly with our investee companies.

Hayfin tracks investments from sourcing to ongoing monitoring via a front office facing customer relationship and workflow management platform. It also provides a flexible dashboard to facilitate Hayfin's investment management activities, portfolio risk monitoring, and investment pipeline monitoring.

In addition, to mitigate risk at portfolio level, Hayfin maintains single position, industry, and geography limits at a portfolio level. Hayfin also monitors overall portfolio metrics including leverage, LTV, and company size. Such factors are monitored by Hayfin's Portfolio Risk Committee, which is chaired by the Chief Risk Officer, and supported by members of the Risk team and representatives from specific investment teams, where relevant and practicable.

To mitigate risk at the asset level, Hayfin conducts thorough analysis of all risk factors, including ESG, structures each asset conservatively (leverage and LTV) with appropriate levels of protection through documentation, including ESG information provisions and ESG margin ratchets, where appropriate and possible. Hayfin's monitoring process is structured to proactively address any credit or performance-related issues well ahead of a default.

We seek to take early, decisive action to manage underperforming businesses and credit events. We have a dedicated team of eight lawyers, including four dedicated professionals within our Legal Execution and Workouts team. This team analyses every investment, working alongside external legal advisors and supporting the investment team in negotiation and documentation for new loans. When an investment has underperformed, we mitigate risk by demanding equity support or by forcing the sale of assets to reduce debt. We also consider selling our position to a third-party if the value is compelling. If necessary, we will take control of the borrower.

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

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