

# HAYFIN RESPONSIBLE INVESTMENT POLICY

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# Preface

## Introduction

Responsibility is embedded in Hayfin's culture. We analyse environmental, social and governance (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 clients and their beneficiaries, our shareholders, our borrowers and our employees.

Hayfin became a signatory to the United Nations' Principles for Responsible Investment (PRI) in 2018. The PRI is an organisation comprising a network of investors and other market participants committed to incorporating ESG factors into their investment decisions. We are committed to the PRI's principles and have integrated them in our Responsible Investment 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.

In February 2022, Hayfin successfully became a signatory to the FRC's UK Stewardship Code 2020. The UK Stewardship Code sets a standard for best practice for asset managers investing on behalf of UK asset owners and guides the way in which we undertake engagement.

## Definitions:

Hayfin defines responsible investment as the integration of ESG considerations into investment management processes and, where applicable, ownership practices, in the belief that these factors can have an impact on financial performance.

When assessing the environmental and social impact of a business as well as assessing the manner in which such business is conducted, we focus on the key ESG issues relevant to that business, such as those listed below.

Environmental	Social	Governance
Climate change Emissions Pollution Waste Urbanisation Resource scarcity	Human rights Labour conditions Gender diversity Health and safety Data security	Business ethics Compliance culture Executive compensation Acting practices Board structure

## Quote:

**“We believe that behaving responsibly, whether as an investor or an employer, enhances our performance, supports our reputation and protects our investors’ capital.”**

Caoimhe Bain, Head of ESG

## Purpose & Scope

Hayfin is committed to investing responsibly and believes that ESG concerns should be considered as part of its investment process. Hayfin’s investment process takes into account the relevant factors that it believes impact returns and the overall investment performance of its funds and separately managed accounts. Investment decisions are ultimately made after considering all relevant factors that could impact an investment, including ESG issues.

As an asset manager, we owe fiduciary duties to our clients, including a duty of loyalty and a duty of care. In discharging these duties, Hayfin believes that this responsible investment policy, when incorporated into Hayfin’s investment process, adds value through combining economic goals with a sustainable development perspective to better meet the expectations of investors and other stakeholders and their long-term objectives. We believe that the analysis of ESG is critical in order to make more informed investment decisions and potentially enhance returns for our clients. Where consistent with our fiduciary duties to our clients, we therefore incorporate ESG considerations into investment analysis and decision-making processes. We also encourage high standards of ESG performance in the companies to which we lend and the investors along whom we invest.

Our investment objectives are compatible with our approach to responsible investment. 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.

Hayfin recognises that the nature of asset managers’ roles can create conflicts of interest. We also recognise that asset managers are placed in a unique position of trust by their clients. Therefore, our approach to conflicts of interest is to comply not just with the letter of the requirements to which the Firm is subject, but to comply with the spirit of those requirements and the principles underpinning them by being aware of both actual and potential conflict of interest situations.

Our Responsible Investment Policy covers all of our assets under management.

# Investment Objectives

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When considering investments, Hayfin applies specific investment exclusions as detailed in section 6. We believe that directing capital towards borrowers willing to improve the sustainability of their practices 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. This is the reason why we pursue an ESG strategy of integration and engagement within our investment strategies. Hayfin respects investment exclusions requested by clients.

Hayfin supports the goals outlined by the Paris Agreement and acknowledges the risk of global warming as systemic. We are committed to understanding how our activities and investments contribute to global warming's causes. We aim to determine what actions we can take to foster lower carbon emissions and do so in a manner that is consistent with our investment objectives and our fiduciary duties.

We believe that risk management is critical to investment success and acknowledge that the mitigation of climate risks is beneficial to society and financial assets. To the extent compatible with our investment objectives and our fiduciary duties, we study and incorporate these risk parameters within our investment criteria.

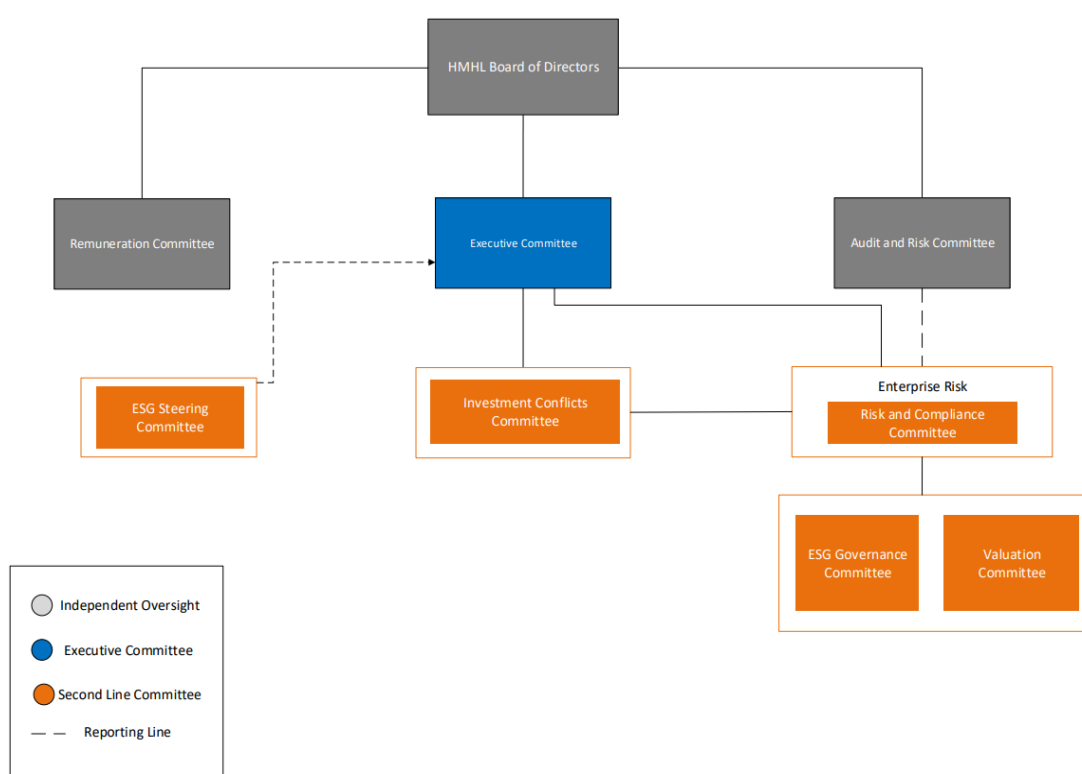
Where consistent with its fiduciary responsibilities, Hayfin seeks to implement this Responsible Investment Policy and its overall approach to responsible investing through the following:

- ▲ Hayfin promotes adherence to this ESG policy across its investment businesses and provides educational information as appropriate to Hayfin investment professionals to ensure that they are attuned to ESG issues that may arise in prospective investments.
- ▲ Where material in respect of a proposed investment, ESG matters are analysed in investment memoranda and considered by the Hayfin ESG Deal Committee (see section 5 for further information). ESG risk is assessed for each deal by the investment team through a combination of undertaking pre-investment screening, applying our proprietary ESG deal scoring for private and liquid credit, and overlaying a subjective view based on bespoke information relating to the company.
- ▲ While an active approach to ESG considerations involving a portfolio company can be challenging due to the typically limited influence of senior lenders, Hayfin regularly meets with portfolio company management and sponsors and raises, where appropriate, material ESG issues.
- ▲ Hayfin seeks appropriate disclosure on ESG issues by the entities in which Hayfin invests to allow the ongoing monitoring of such issues, whether in existence at the time of the investment or which may arise afterwards.
- ▲ In some cases, Hayfin seeks to influence ESG behaviours of underlying portfolio companies through the use of ESG margin ratchets where appropriate. KPIs are set to be meaningful, measurable and sufficiently ambitious, with the result being a reduction of ESG risk.
- ▲ Hayfin is a conscientious investor and would not knowingly invest in a company that violates

applicable laws and regulations. Hayfin considers ESG issues and related reputational risks when investing and, therefore, invests in companies that seek to be responsible corporate citizens, with policies that promote consideration of ESG matters.

## Governance

Hayfin's governance structure ensures formal oversight and accountability with regards to the implementation of this Responsible Investment Policy.



The ESG Steering Committee reports throughout the year to senior management on progression made against pre-set annual ESG objectives.

## Audit & Risk Committee

Hayfin's ESG Steering Committee is ultimately responsible for ensuring the successful implementation of this policy with the ESG Governance Committee responsible for oversight of implementation of ESG process. Members of the Committee include Hayfin's General Counsel and Chief Financial Officer, as

well as two non-executive directors and a shareholder representative. The ESG Steering Committee reports periodically to the Audit & Risk Committee (“ARC”), who reports quarterly to Hayfin’s Board of Directors.

## ESG Governance Committee

Hayfin’s ESG Steering Committee is comprised of members of senior management, investment, legal, ESG and client service teams and meets quarterly to oversee Hayfin’s responsible investment strategy. It reports to the Executive Committee.

The Committee’s main responsibilities are to:

- ▲ Monitor market and legislative developments.
- ▲ Ensure ESG considerations are integrated across all business lines, as well as at a corporate level.
- ▲ Provide a strategic view on whether Hayfin should join ESG integration and/or stewardship initiatives or make commitments at a firm level.
- ▲ Oversee the conduct of ESG training for investment teams and employees to ensure they have the required ESG knowledge and skills to incorporate responsible investment best practices in their daily activities.
- ▲ Play an active role in defining ESG and stewardship goals annually via the ESG scorecard.
- ▲ Ensure Hayfin remains proactive to ESG-related issues and competitive relative to peers. This includes keeping abreast of ESG approaches of competitors where possible.
- ▲ Review Hayfin’s responsible investment, climate and exclusions policy annually.
- ▲ Escalate any ESG issues of concern to the ESG Governance Committee.
- ▲ Undertake ESG tool reviews on a periodic basis to ensure they are fit for purpose.

## ESG Deal Committee

The ESG Deal Committee’s role is to facilitate discussion and analysis of material ESG risks arising in deals before they are presented to Hayfin’s Investment Committee. The ESG Deal Committee’s main responsibilities are to:

- ▲ Establish and maintain ESG tools to assist the deal teams with ESG risk identification and analysis. These tools help set out risk information within the ESG memo discussed at the ESG Deal Committee.
- ▲ Establish processes for tracking ESG risks on an ongoing basis.
- ▲ Review, discuss and validate ESG KPIs set as part of ESG margin ratchets, where applicable.
- ▲ Oversee the implementation of ESG deal scoring by the deal teams.
- ▲ Promote ESG related disclosure through identifying where readily available ESG data can be easily requested by the deal team.
- ▲ Provide the deal team with guidance on the application of ESG tools.
- ▲ Provide ESG training sessions for the investment team.
- ▲ Escalate all ESG issues of concern to the IC through a formal conclusion. The IC remain responsible for the ultimate decision of whether to proceed with an investment on an ESG

basis.

The ESG Deal Committee includes members of our investment team, ESG team, investor relations team and execution team.

## ESG Incorporation Approach

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Through our ESG approach, we aim to seek and procure investments that are consistent with: the transition toward a low-carbon economy, the cultivating of resilient enterprises and communities, and our high standards for investment rigor and diligence.

### Investment Exclusions

Hayfin will not make investments in companies that are incompatible with our corporate values and ESG objectives. We will not knowingly invest in:

- ▲ Controversial weapons
- ▲ Arms trade to entities that are subject to arms embargoes
- ▲ Tobacco production
- ▲ Oil sands production and controversial pipelines
- ▲ Mining of thermal coal
- ▲ Pornography

### Investment Diligence

Our investment teams use the industry database maintained by the ESG Deal Committee and ESG tools developed internally to guide their analysis. They may also commission third-party research and seek appropriate disclosure from sponsors, management and other relevant stakeholders. ESG risks are initially screened for at the business selection stage, where ESG 'red flags' are identified, prompting further analysis or, at times, rejection of a deal. An ESG memo is written covering material ESG risks the business is exposed to, ESG sponsor due diligence and an ESG deal score. Where an industry presents heightened ESG risks, the investment team consults with the relevant team leaders, ESG Deal Committee or Investment Committee. This analysis is then submitted to the ESG Deal Committee for review before the investment can be presented to the Investment Committee. Further clarifications or actions may be required by either the ESG Deal Committee or the Investment Committee.

Hayfin also undertakes ESG due diligence on the private equity sponsors with which it engages. This involves assessing the sponsors ESG commitment, integration, engagement and disclosure processes and scoring the sponsor based on their capabilities. We engage with sponsors following our analysis to drive best practice.

## 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. Minutes from the ESG Deal Committee are sent to the final Investment Committee prior to investing. Hayfin's Investment Committee is ultimately responsible for ensuring that material ESG issues have been considered and adequately addressed.

In the case of private equity investments, the Investment Committee closely analyses the ESG scorecard and identifying key ESG topics to be addressed by the investment or ODD team with the private equity sponsor before approval.

## Portfolio Monitoring and Exit

Where material ESG matters have been identified, the responsible investment analyst engages with sponsors and/or management on an ongoing basis to monitor these issues. Where ESG KPIs have been set, these are reported on by the borrower annually and progress is tracked over time. Monitoring of ESG data is also carried out with the annual issue of our ESG borrower questionnaire.

For private equity investments, we actively engage with our GPs to improve ESG practices within investee companies. This is done through direct engagement at least annual via a phone call with the sponsor. We have implemented an oversight programme to monitor ESG at the portfolio company level through an annual survey requesting a selection of KPIs.

## Active Engagement

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Through active engagement, Hayfin aims to increase transparency, raise ESG awareness and influence practices. We firmly believe that our influence can be used to maximise overall long-term value, including the value of common economic, social and environmental assets, on which returns, and client and beneficiary interests depend. Our ability to influence varies across our strategies based on the role we play in a given transaction and our influence in the capital structure.

We are a signatory to the UK Stewardship Code 2020 and undertake our stewardship activity in line with the 12 Principles set out for asset managers. We continue to enhance our responsible investment efforts internally, prioritising improved disclosure of our responsible investment approach and outcomes, while listening to the requirements of our investors in guiding how we could best act as stewards of our clients' assets.

## Individual Engagement



As a senior lender, our strength lies in our active engagement with fellow lenders and sponsors. Our engagement strategy focuses on collaboration with other investors in order to ensure our investment objective. We engage with sponsors to understand their ESG philosophy, policy and procedures and ensure that ESG performance is ranked in a scorecard. Where we make use of ESG margin ratchets within documentation, we engage with borrowers/sponsors in order to set meaningful ESG KPIs to measure and improve on over time.

## Collaborative Engagement

Hayfin believes that better ESG outcomes can be achieved through collaboration. We seek to collaborate to support and further our ESG objectives on an industry and policy level. We do this in a number of ways:

- ▲ Hayfin is a member of the Alternative Credit Council (ACC), a global body that represents asset management firms in alternative credit. We are part of ACC's Responsible Investment Working Group.
- ▲ We are a member of the Initiative Climat International ('ICI') Private Credit Working Group focused on supporting private credit address climate risk.
- ▲ We are a member of the PRI's Private Debt Advisory Committee focused on promoting best practice among private debt investors and providing guidance.
- ▲ In addition to this, we actively work with the ACC, the Loan Syndications and Trading Association (LSTA) and the PRI more broadly on consolidating ESG data gathering across both public and private markets.
- ▲ Finally, we have worked collaboratively with our peers across liquid credit markets to support ESG disclosure.

## Reporting

We report annually to our investors on our approach to meeting the EU's Sustainable Finance Disclosure Regulation ('SFDR') requirements for a selection of our funds. We also report more regularly on responsible investment within our quarterly reporting and are continuously focused on improving the quality of ESG disclosure.

We complete the following annual ESG reporting:

- ▲ 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 clients upon request.
- ▲ The FRC's UK Stewardship Code 2020 reporting, outlining how we invest in line with the 12 Principles set out for asset managers by the Code. This report is publicly available [here](#) on our website.
- ▲ Annual Taskforce on Climate-related Financial Disclosures ('TCFD') reporting setting out our

approach to climate risk and opportunities.

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