HAYFIN

Task Force on Climate-Related Financial Disclosures ('TCFD') UK Entity Report

Hayfin Capital Management LLP

1st April 2024 to 31st March 2025

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About this report

Hayfin Capital Management LLP's ("Hayfin", "Hayfin UK", "the Manager") Task Force on Climate-Related Financial Disclosures 2024 /2025 Report ("TCFD", "TCFD report", "the report") has been prepared in accordance with the requirements of the Financial Conduct Authority's ("FCA") Environmental, Social, and Governance Sourcebook ("ESG Sourcebook", "the Sourcebook"). For the purposes of this report, the entity in-scope of the FCA's reporting requirements is Hayfin Capital Management LLP, operating in the UK. All other Hayfin entities are out of scope of this report, although reference to portfolio management activities across different entities are referenced.

This TCFD report summarises Hayfin's approach to considering material climate-related risks and opportunities consistent with the 11 recommendations of the TCFD. The report describes efforts taken to formalise Hayfin's climate strategy in accordance with the former Task Force's recommendations across Governance, Strategy, Risk Management, and Metrics and Targets. The purpose of this report is to provide information pertaining to Hayfin's approach to material climate-related risks and opportunities at the entity-level, however there are references to select investment strategies and other Hayfin entities for the purposes of demonstrating the Manager's approach as it is recognised that as an investment manager, Hayfin's operations have limited exposures to climate risk.

Data referenced in the "Metrics and Targets" section of the report relates to other members of Hayfin's Group, not only to the UK entity. Note, Hayfin UK did not delegate any investment activities to third parties other than corporate emissions measurement. This was delegated to specialists in carbon footprint calculations to most accurately report this metric.

Hayfin Capital Management LLP structure

Hayfin Capital Management LLP is an investment manager and provides services for its investors relating to investment management activities. This report covers activities undertaken by Hayfin UK, although there will be reference to other members of Hayfin's Group (€33bn AUM as at 31st March 2025).

Compliance statement

Section ESG 2.2.7R in the FCA's Sourcebook requests Managers to include a statement which confirms disclosures comply with the TCFD recommendations and requirements of the ESG Sourcebook.

The disclosures in this report comply with the TCFD recommendations, entity reporting requirements set out in chapter 2 of the Environment, Social and Governance Sourcebook. Data limitations are set out in the "Metrics and Targets" section of the report (refer to "Metric limitations").

Mark Tognolini, Co-CEO

HAYFIN

Executive summary

Hayfin's Climate Strategy Evolution

Across a wide range of strategies, Hayfin approaches material climate-related risks and opportunities, for its funds in a way that complements its existing risk management approach and 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 adverse risks that climate change, including transition and physical risks, could have 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 Environmental, Social and Governance approach. Hayfin's climate strategy supports the Manager 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 and non-ESG related committees. Key personnel around the business, for instance, 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. This report sets out Hayfin's climate strategy including its implementation, governance and metrics used to consider exposure to material climate risks.

Highlights 2024 - 2025

Progress made over the reporting period

- Published Hayfin's inaugural TCFD Entity report
- Developed Hayfin's approach to qualitative climate scenario analysis
- Developed a proprietary Sustainable Investments framework which includes analysis of climate risk and opportunity
- Added resource dedicated to the application of the Sustainable Investments framework
- Committed to investing a portion of capital classified as sustainable in Direct Lending Fund V ('DLF V')[1]

Priorities over the coming year

- Improve thematic mapping of the portfolio by assessing physical climate risk and biodiversity impact
- Increase engagement with borrowers in relation to climate risk management and disclosure

[1] Fund V has committed to invest, using commercially reasonable endeavours, in a minimum proportion of sustainable investments of 20% across the portfolio (expressed as a percentage of the total capital invested, measured on a capital committed basis, at the end of the investment period).

Hayfin's climate values

Underpinning Hayfin's climate strategy, described in the section covered in "Strategy", are its climate values ("Values") set out below. These values are designed to support the business in conceptualising a climate strategy and approach which is complementary to Hayfin's existing risk management framework and governance structures. These values will be referenced throughout this report, supporting the framing of Hayfin's responses to the TCFD's recommendations.

The following values have been determined as core components of enterprise risk management and investment practice.

- *Better understanding of risk* – the identification of material climate risks and opportunities, which might vary across companies and sectors, better informs investment decision-making processes. Hayfin also considers the impact of forthcoming climate-related regulation and legislation at ESG Steering Committee, and with its external lawyers.

- *Improving climate-related disclosure of investments* – as a supporter of the Taskforce on Climate-related Financial Disclosure ('TCFD', 'the Taskforce') since 2021, Hayfin encourages borrowers and sponsors to disclose climate-related data, where possible. This includes information pertaining to emissions, net zero targets, transition plans, climate policies, and climate risk management procedures in place.

- *Client and stakeholder reporting* – as an FCA regulated entity, Hayfin will report in line with TCFD recommendations from mid-2024 and will continue to provide entity-level reporting on climate risks and opportunities in forthcoming years.

- *Collaborating with industry peers* – Hayfin looks to engage with industry networks or groups to foster specialist expertise and knowledge, and to understand 'best practice' for the asset class in respect to integrating climate considerations into the investment process.

- *Supporting real world decarbonisation* – Hayfin, where possible, identifies means to manage and/or mitigate climate-related risks and, in doing so, focuses on real world emissions reduction. Hayfin is also committed to reducing its own operational emissions, by measuring and implementing strategies which foster lower carbon intensive behaviours.

- *Engagement with borrowers and sponsors* – Hayfin, where possible, will engage periodically with sponsors and borrowers that it partners with to seek a better understanding of its financed emissions. It will also use these engagement opportunities as a means of promoting best practice where possible.

Underpinning these values is Hayfin's commitment to long-term risk-adjusted returns across its investment strategies. Identifying and managing climate-related risk exposures is, therefore, considered integral to maintaining sustainable risk-adjusted returns for clients.

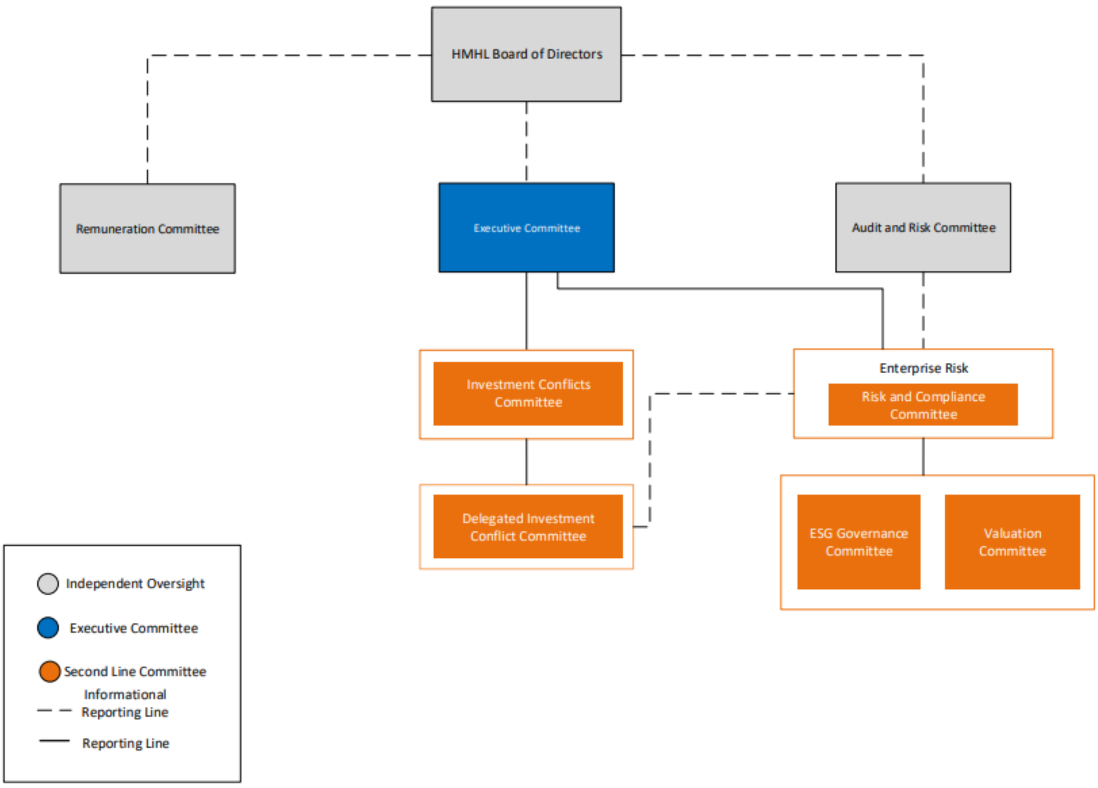
Hayfin's commitment to preserving investors' capital across its investment strategies is firmly embedded within these values. Physical and transition risks could have a materially adverse impact on investment performance in the medium- and long-term horizons. The Manager recognises the importance of integrating climate-related matters in investment decision-making and firm-wide risk management processes and will continue to review the manner in which material climate risks are assessed.

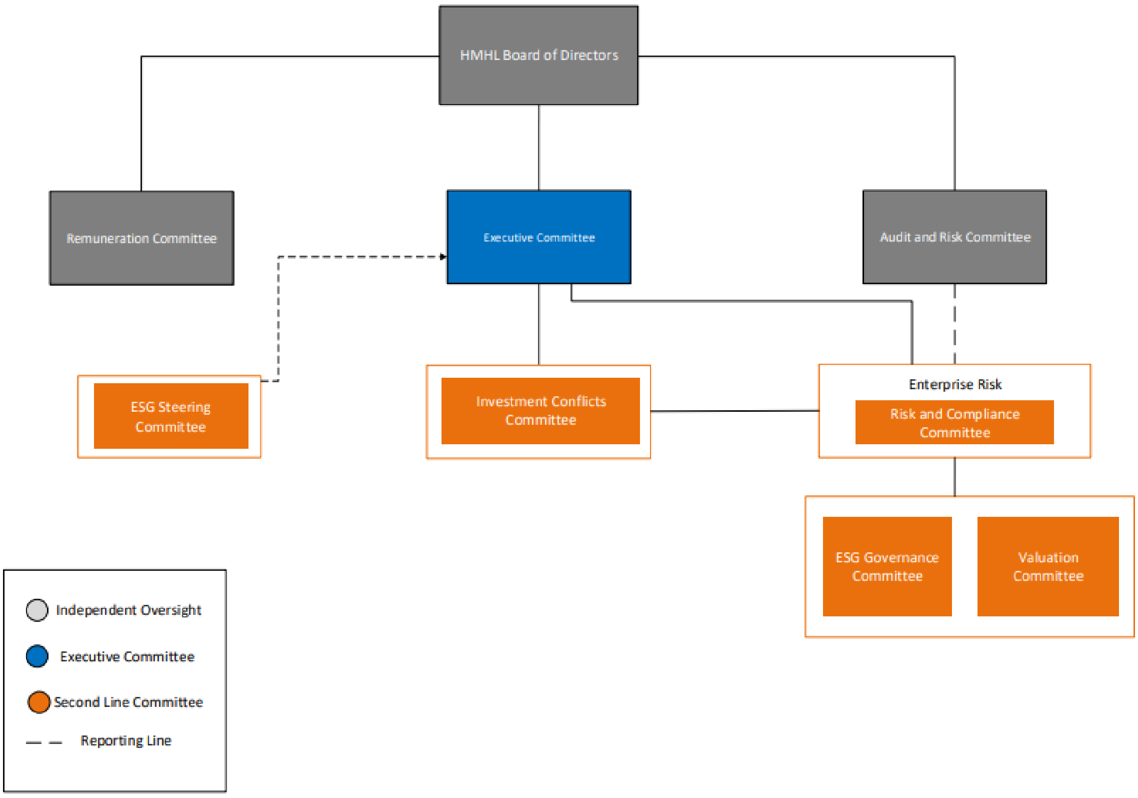
Identifying and managing climate-related risk exposures is, therefore, considered integral to preserving its investors' capital.

Governance

Hayfin is committed to establishing and maintaining formal structures and processes essential to building the Manager's, its investors' and other stakeholders', long-term resilience to material climate-related risks. To support this, Hayfin will continue to build on its existing structures designed to identify, monitor and oversee material business and investment risks, with a specific lens on climate-related concerns.

The Board of Hayfin oversees Hayfin's ESG strategy, including its response to material climate-related risks and opportunities across its direct operations and portfolios, where required. Management responsibility is delegated to the Head of ESG, reporting to Hayfin's separate ESG-focused and Risk Committees, and, where appropriate, the Executive Committee. The Head of ESG liaises with investment teams, across asset classes, to identify and manage potentially material climate-related risks and opportunities that different investments, and sectoral exposures, might pose to Hayfin.





Board oversight and responsibility

Hayfin believes robust oversight of material ESG factors will help the Manager to identify and manage its potential risk exposures and help to preserve capital in the long-term.

The Board reviews progress made against Hayfin's ESG approach and strategy, including climate-related workstreams and formal reporting. Updates are usually given on a bi-annual basis by the Head of ESG, outlining key objectives and priorities within ESG for the year. The Board is provided with an overview of Hayfin's ESG scorecard on an annual basis.

Additional climate-related agenda items are brought for discussion at board meetings on an ad hoc basis, where relevant and appropriate.

Business risk

Potential climate-related risks to Hayfin's operations are mostly associated with the transition to net zero. Hayfin is potentially exposed to regulatory, market and reputational risks associated with climate change, as defined by the Taskforce on Climate-related Financial Disclosures. As outlined below, the following committee is responsible for ensuring these risks are adequately managed.

- **ESG Steering Committee** – Chaired by the Head of ESG, this committee is responsible for driving Hayfin's ESG strategy, including the discussion of a range of ESG topics, overseeing ESG-related reporting at the corporate and investment-levels, deciding upon memberships to industry groups, and delivering training. Where required, the ESG Steering Committee reports to the Executive Committee.

Given the importance of ESG and climate risk management at Hayfin, other committees are often provided with updates on strategy and new approaches adopted to comply with ESG regulation. For example, as part of their responsibilities to oversee risk and business compliance, the following committees receive updates on ESG, and progress across a range of climate priorities, where applicable and relevant:

- **Audit and Risk Committee ("ARC")** – Hayfin's Audit and Risk Committee is composed of representatives across different business functions, namely Operations, Risk, Compliance and IT, and is chaired by a board member. ARC's primary responsibility is to review the effectiveness of Hayfin's risk management framework and processes and, lately, monitor the business's exposure to climate-related risks, where relevant and appropriate to do so. Bi-annually, the Head of ESG is invited to present on certain topics, including corporate and investment-level ESG projects.

- **Risk and Compliance Committee ("RCC")** – The Risk and Compliance Committee is a sub-set of representatives from the ARC but also includes members of portfolio risk. Material risk exposures to the business are discussed, including regulatory horizon scanning. This might include discussion pertaining to the Sustainable Finance Disclosure Regulation ("SFDR"), TCFD and/or other regional ESG-related regulation.

- **ESG Governance Committee** – Hayfin established its ESG Governance Committee in 2023. Its purpose is to oversee the proper compliance with ESG-related regulation and commercially agreed requirements. This applies to fund-level requirements, namely obligations associated with fund-level processes.

Bi-annually, Hayfin's Head of ESG reports into the ARC, where important ESG-related topics, including climate, are raised, ensuring visibility of risk-related ESG workstreams and that these are discussed in the appropriate forum.

Investment risk

Investment-related ESG risk is monitored and managed by the relevant investment function and is supported by the ESG Deal Committee. Prior to Investment Committee, Hayfin requires deals of applicable strategies in private credit, to be discussed at the ESG Deal Committee.

Hayfin's Investment Committees ("IC"), where appropriate, assess potentially material climate-related risks and opportunities of investments. Following discussions held by the ESG Deal Committee, deal analysts might cover physical and/or transition risks anticipated to impact the credit rating of an investment. Should the ESG Deal Committee consider climate risk to be a material issue for a deal, this would be escalated to the IC for consideration within the broader context of the deal. If further analysis and diligence is required prior to funding, this is noted in minutes as an action point for the investment team to complete.

Management responsibility and oversight

Hayfin's Head of ESG is responsible for managing and overseeing Hayfin's strategy and approach to climate change. This includes considering the impact of Hayfin's direct operations, namely responsibility for Group emissions measurement projects. Hayfin's Head of ESG also supports investment teams to appropriately assess potential exposures to physical and transition risks during pre- and post-investment diligence on borrowers, deal sponsors, private equity General Partner[2], and other investments Hayfin manages.

Hayfin's Head of ESG is supported by a variety of other business functions and committees, to ensure material ESG, and climate-related, risk factors are duly considered throughout a range of Hayfin's business operations. Analysts and heads of Hayfin's investment teams are also responsible for ensuring compliance with Hayfin's ESG processes for their respective strategies.

As Chair of the ESG Steering Committee, the Head of ESG coordinates Hayfin's response to commercial and/or regulatory requirements.

Education and capacity building

Training dedicated to ESG topics is mandatory for members of investment teams and must be undertaken at least annually. Following annual training, investment professionals are provided with supporting materials referenced in training. Over the reporting period, education was provided specifically focused on climate-specific topics and ESG process at Hayfin.

[2] Hayfin's Private Equity Solutions strategy invests in secondary fund investments.

Strategy

Hayfin initially began a formal process of identifying, assessing, and managing climate-related risks and opportunities in 2023 and continues to build on these processes annually. Climate change is considered a material risk to Hayfin's operations and products. Certain business functions have developed strategies supported by Hayfin's Climate Policy ("the Climate Policy"), referenced within this section of the report. Since then, select strategies and portfolios, across a range of asset classes[3], have begun to integrate climate analyses throughout the investment lifecycle, often complementary to investor ambitions or requirements[4], and commonly assessed where climate risks are considered financially material to an investment. The assessment of material climate-related risk factors complements the traditional evaluation of financial-related risk factors, and feeds into business strategy and financial planning, where relevant and applicable.

As an investment manager, Hayfin recognises the importance of systematically identifying and managing climate risks across business operations, as well as the investments it selects and manages as an investment manager. Whilst Hayfin is refining its climate strategy, measuring its emissions and disclosing these to stakeholders is an important part of preparing the business to consider the approach to decarbonising over time.

Underpinning Hayfin's approach is its Climate Policy. The purpose of the Climate Policy is to express Hayfin's climate values, outline Hayfin's regulatory requirements relating to climate disclosure, and describe the risk management process across a range of its funds in a dedicated climate risk management framework.

As the Climate Policy evolves, and processes supporting the implementation of the Climate Policy develop over time, Hayfin will seek to mitigate any potential risks and impacts on its business, portfolios and reputation. Central to the Climate Policy is the combined approach to assess financial and non-financial risks together and seek to identify new approaches to better preserve existing and new investor capital.

Table one – 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

[3] Managed by other Hayfin entities, not only the UK entity.
[4] Hayfin collaborates with its investors and prospective investors to understand their goals and/or future ambitions across a range of asset classes. This supports Hayfin in developing new product strategies or reporting mechanisms, all of which can positively contribute to helping investors achieve internal climate and net zero-related objectives.

		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 short-, 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 could face reputational risks through non-compliance of climate risk management processes at a strategy level.	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. Hayfin's ESG Governance Committee is a dedicated forum for the oversight of ESG process including that related to climate risk management. This forum ensures the correct application of processes.
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 which may have a detrimental effect on company valuation, or owing to supply chain disruption, revenues might be materially affected through input cost increases and/or material 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	

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reputational risks	and associated compliance costs, depending on the country/ies of their incorporation and business activities and the sectors in which they operate. ◢ 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.	

Private credit risks and opportunities – a case study

Hayfin's focus on risk management, including the management of non-financial risk factors, is underpinned by data. Gathering emissions data and other climate-related metrics is an integral step to identify and understand possible asset- and portfolio-level climate-related risk exposures. During pre-investment diligence for select private credit strategies. For example, climate-related risks, where considered material, are assessed by the deal team and discussed at Hayfin's ESG Deal Committee[5]. Following investment, some of Hayfin's most recent private credit strategies also collect data using an ESG Questionnaire[6] on an annual basis. Where respondent companies provide emissions and climate-related data, Hayfin is able to aggregate and analyse possible patterns, such as sectoral risk exposures, and identify possible points of engagement discussions with specific investee companies, where possible and practicable.

The following case study focuses on a private credit strategy managed by Hayfin. Typically, the investment holding period, and realisation of assets is between 5 and 8 years. For the purposes of the exercise to identify potential climate-related risks and opportunities, Hayfin has excluded long-term climate risks. Risks included in the table below are indicative only, and do not represent a forecasting

[5] For further information, refer to the "Governance" section of the report.
[6] Hayfin gathers information directly from some of its portfolio companies using a Borrower ESG Questionnaire. This questionnaire is underpinned by the ESG Integrated Disclosure Project template ("EIDP").

of actual risks likely to impact the strategy. This is also not an exhaustive list.

Table two – a Hayfin private credit strategy and its possible exposure to climate-related risks

Risk or Opportunity	Factor	Time horizon[7]	Description
Risks (Physical and Transition risks)	*Acute physical risks*	*Short- and medium-*	Rising frequency and severity of extreme weather events could lead to increased pricing volatility of fund assets where portfolio companies are adversely impacted, and unable to respond given low levels of climate resiliency
	Regulation, policy and litigation risks	*Short- and medium-term*	Increased regulatory requirements on portfolio companies, and Hayfin, could lead to increased compliance and/or transition cost burdens, and thereby impact portfolio company, and total strategy-level valuations. Should Hayfin, or any of its portfolio companies, be perceived to not be prepared for the transition towards a decarbonised economy, regulators, investors, activists and other stakeholders might pursue legal action. Costs and reputational damage could be significant
	Market risk	*Medium-term*	Where Hayfin is unable to update and improve data gathering processes relating to climate, and associated climate disclosure for investors, it is possible that Hayfin could lose long-standing investors
	Technological risk	*Medium-term*	Hayfin seeks to engage, where possible and practicable, with borrowers which could be adversely affected by climate change, including technological disruption. Where relevant, some companies might be adversely affected should they fail to use technologies to support the transition towards net zero
	Reputational risk		An interplay between different risk factors could lead to reputational risk, and potentially result in commercial risks, namely loss of revenue, and loss of investor confidence
Opportunities	*Downside protection*	*Medium-term*	As a private credit investment manager, Hayfin looks to protect and preserve its investors' capital, and the valuations of investments. In identifying and managing possible climate-related risks of credit strategy assets, Hayfin seeks to protect against

[7] Note, time horizons of risks listed in the table are a general description of possible risk exposures as identified by Hayfin in one of its private credit strategies. These are qualitative risk assessments and might be subject to change. When assessing other fund-specific risks, geographic, sectoral and time horizon-specific exposures might contribute to materially different risks than those referenced in the table.

			significant downside non-financial risks

Time horizons defined – Short-term between 1 and 3 years, Medium-term between 5 and 10 years.

For further information on the identification and management of climate-related risks in investment practice, across a range of Hayfin's strategies, refer to the "Integration of climate risk management across investment lifecycles" in the "Risk Management" section of this report.

Climate scenario analysis – a synopsis of simple heatmapping exercise in private credit

Scenario analysis may be used, from time-to-time, where relevant and decision-useful, to inform assessments about the resilience of an organisation's business or strategy to potential risks associated with climate change. Scenario analysis can also support the identification of possible risks in certain geographies, sectors or time horizons, and potentially result in better management of certain risk exposures. Where possible, select Hayfin strategies will consider possible material climate risk factors during pre-investment due diligence and continue to review these risks during portfolio monitoring[8].

Hayfin uses climate scenario analysis, through qualitative heatmapping as described below, to identify possible exposures to climate-related risks in certain investment strategies, and underlying assets. As outlined in the report's section on "Risk Management", qualitative assessments of a potential asset's material risk to climate change is considered, where appropriate, during pre- and post-investment stages. Where climate risks are identified, these will be raised to Hayfin's ESG Deal Committee and, following investment, escalated to Hayfin's Special Measures Committee[9].

In early 2024, Hayfin's ESG team put together a simple heatmap, seeking to evaluate possible climate-related risks associated with holdings in one of its private credit strategies. As an initial step to identify and assess transition and physical risks associated with sectoral positions held by the funds, Hayfin used a traffic lighting system to rate the level of risk across short- and medium-term time horizons. Over 2025, Hayfin will seek to develop its analysis to provide a more detailed understanding of transition and physical risk exposures to specific assets and, where possible, seek to introduce the quantification of possible climate risk exposures to support portfolio monitoring and engagement activities[10]. In essence, developing Hayfin's approach to climate scenario analysis will allow teams to better understand portfolio-level risk, especially concerning asset resiliency to a range of climate-related risks.

[8] Hayfin does not undertake quantitative climate scenario analysis as this would not provide decision-useful information for investment practice nor for its investors at present. Given limited actual reported data availability, and the complexity of scenario analysis, Hayfin does not consider quantitative climate scenario analysis appropriate to support investors to understand the potentially material climate-related risks associated with the Fund's investments at this point in time.

[9] Hayfin's Special Measures Committee considers potential and/or actual risks posed to strategies' assets, and discusses possible solutions. The committee is responsible for managing downside risks where Hayfin has identified possible risks associated with loss of value and/or possible default.

[10] It was determined, as an initial exercise to consider climate risks in one of Hayfin's private credit strategies, to undertake a simple heatmap to help the ESG and investment teams to consider risk exposures at the sectoral level. Traffic lighting approach supported a simple approach in qualitatively describing possibly material climate risks across time horizons affecting the funds' assets. In future, more specific asset-level assessments may be pursued. Data availability and less reliance on proxied information will be essential to support Hayfin in quantifying material transition and physical risks. [Note, transition risks are challenging to model given assumptions pertaining to regulation, consumer preferences, technological developments and reputational damage need to be included as inputs into complex models].

Risk Management

Climate risks are becoming increasingly important to how investment managers, across all asset classes and sectoral exposures, manage investor capital and assess current and possible future risk exposures. In recognition of this, Hayfin has begun to integrate climate-related considerations in its risk management approach. In developing a Climate Risk Management Framework for a range of strategies[11], Hayfin aims to formally establish a robust set of processes to investigate and assess borrower-specific risk exposures pertaining to the transition to a low carbon economy ("the transition") and physical climate risks.

This section of the report will focus on describing Hayfin's processes and measures used to identify, assess and manage potentially material climate-related risks at the entity-level. However, given it is difficult to separate the UK entity from other parts of the business, there will be direct reference to strategies which are out of scope of the UK regulatory climate disclosure requirements.

Identifying and assessing climate-related risks

In accordance with TCFD definitions, Hayfin distinguishes between two types of climate-related risks - physical and transition risks. Both categories of risk will have different implications for a range of sectors, geographies and companies over different time horizons, and are considered in Hayfin's overall risk management processes, particularly associated with fund exposure risk management.

Climate-related Risks explained

Transition risks

Transition risks arise from shifts in the global economy required to reach net zero by 2050, and are broken into the following sub-categories:

- Changes in national or global policy and regulation, including litigation risk[12]. National policies and regulation may stimulate development in products and services to support decarbonisation, or demand-side policies may discourage consumption of carbon intensive products and services. Elevated litigation risk could be driven by exposure to carbon intensive industries and companies, potentially resulting in court filings, penalties and fines, as well as reputational scrutiny. Litigation events could, in future, lead to significant losses as climate-related risks affect more industries, communities, societies and nature.
- Technological shifts to support decarbonisation of business operations, where low carbon substitutes might lead to the lessening in demand for certain products and services;
- Shifting consumer and market preferences resulting in a change in demand for certain products and services, particularly those viewed as being environmentally damaging;
- Reputational damage associated with inability or unwillingness to transition towards a low

[11] The Climate Risk Management Framework differs for each strategy, depending on ownership, control, accessibility to underlying investee company management and engagement strategies, for example. The Framework and its application will evolve over time, and only represents the approach taken presently. Note, this Framework is based on materiality; pre- and post-investment analyses might differ depending on borrower-specific risks.

[12] Includes possible exposure to climate-related litigation against companies which are determined to be slow, or unwilling, to transition towards lowering GHG emissions. Stakeholder perception is linked to reputational risk drivers; adverse perceptions linked to poor environmental management, including a perceived delay in mitigating climate change by communities, civil society groups, consumers and shareholders, for instance, can lead to potential losses in revenues, decline in asset values and/or possible litigation.

carbon economy.

These risks impact different sectors and borrowers to a varying extent. They could have a negative impact on portfolio asset valuation, potentially resulting from additional expenses or liabilities associated with regulation, loss of consumer confidence and demand for products or services, for instance. This can affect Hayfin, the demand for its funds, and the operations of investee companies.

Physical risks

Physical risks can arise from acute, short-term extreme weather events, including severe droughts, storms and flooding, or long-term shifts in climatic patterns, namely rising sea levels, shifts in rainfall patterns, prolonged ice cap melting, and rising average temperatures in certain geographic locations. Both acute[13] and chronic[14] physical risks can have a detrimental impact on the valuation of a company or portfolio's assets.

Transition and physical risks may have adverse impacts for traditional investment risks, including operational, liquidity, market and credit (default losses).

- Operational risk – climate change might adversely affect the employee use of Hayfin offices, for instance. Extreme weather events across Hayfin's global footprint might lead to employees being unable to fully undertake their duties.
- Liquidity risk – Although potentially unlikely in the near-term, and despite challenges to liquidate fund positions in private asset classes, investors might seek to lower their exposure to Hayfin funds and strategies should the Manager be viewed unable or unwilling to assess climate-related risks in its portfolio across a range of strategies. This could lead to liquidity risk.
- Market risk – physical and transition risks could lead to a decline in asset values across a range of sectors, industries, asset classes and geographical exposures should risks not be properly assessed in diligence.
- Credit risk – Default probabilities might increase owing to the interplay between physical and transition risks at the asset- and portfolio-levels. Corporate revenue, profitability, and asset values might decline where companies are exposed to transition and/or physical risk events.

Approach taken to identify, assess and manage climate-related risks

Hayfin recognises the importance of developing a robust and considered approach to integrating climate-related factors into the business's risk management framework. Consideration of material risks is an integral process to identify exposures that could adversely affect business operations and, in doing so, reduce Hayfin's ability to act as a responsible steward of its investor capital[15]. Where relevant and practicable to do so, climate-related risks and opportunities are evaluated alongside material financial and other non-financial risks across Hayfin's fund range; this approach will continue to be developed. New data types and methodologies, involvement in collaborative groups such as the iCI, and in-house research will assist Hayfin to develop climate-specific knowledge and expertise.

[13] Event-driven physical climate risk including hurricanes, floods, and wildfires.

[14] Long-term shifts in climate patterns and changes in the natural environment, such as changing global temperatures, changes in precipitation patterns, which may lead to sea level rise or chronic heat waves.

[15] Hayfin has a fiduciary duty to preserve the value of investor capital. Identifying and managing material climate risks is considered integral part of this duty and is a service some investors are increasingly focused on.

Hayfin will continue to build upon the efforts to establish a formal process to evaluate climate-related risks in the near-term, namely considering ways in which we could begin to quantify the possible impact climate transition and physical risks could have on portfolio risk and valuation.

Integration of climate risk management across investment lifecycles

Hayfin assesses climate risks and impacts throughout the investment process for a select range of its strategies. The integration of climate risks and opportunities, and how these are assessed, varies between asset classes, as is referenced in the following section of the report. Assessments evaluate potential financial impact to individual assets, and at the total portfolio level, on a case-by-case basis depending on geographical, sectoral and business exposures, for example.

The following section will outline various processes used by different investment teams to identify and mitigate potentially material climate risk exposures. Engagement with investment companies, borrowers and private equity managers is used, where practicable, to manage identified risks, and to seek to mitigate these, where possible. In this way, Hayfin embeds climate risk management into the normal course of investment practice and is complementary to investment analysis across a range of Hayfin's strategies and funds, where applicable. Assessing and managing climate-related risks supports Hayfin in building resilient portfolios, preserving investor capital and managing capital for the long-term. This is, Hayfin believes, a key part of its role to serve as a responsible steward of investor capital, determining possible impacts of climate risks on the risk-return profile of portfolios, where relevant.

The below summary of processes is an illustration; exact processes might deviate from those stated below in this report depending on portfolio, investment type, sectoral and idiosyncratic considerations, and access to information throughout investment lifecycles.

Step one - screening using Hayfin's Exclusion Policy ("the Exclusion Policy")

All Hayfin strategies, unless otherwise specified in the Exclusion Policy, exclude activities which are considered harmful to people and the planet, and which are highly likely to expose the Manager 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 those which significantly contribute towards global warming. Internally, potential investments are screened against the Exclusion Policy at outset.

Step two - pre-investment due diligence

During investment diligence, Hayfin's Private Credit deal teams, and those in Liquid Credit, Maritime, Private Equity, conduct a preliminary risk assessment. Assessments typically investigate the potential risk factors associated with the sector, as well as material idiosyncratic risks. Investment teams are required to identify material risks, evidencing these in internal deal documentation. Analysts detail the identified risk(s), and how a borrower or issuer's actions seek to address and mitigate those financially material ESG risk factors.

An additional diligence exercise undertaken for the majority of Hayfin's private credit investments is the review of ESG risk factors by members of the ESG Deal Committee. Information gathered by deal analysts on ESG topics including climate relating to private credit and private equity deals is reviewed by Hayfin's ESG Deal Committee prior to final Investment Committee. This process fosters independence in assessing a borrower's or asset's ESG, and climate-related, risks and opportunities.

For the latest vintage of our Direct Lending Fund ('DLF V'), we have developed a proprietary Sustainable Investment framework. Within this framework, an assessment is made of whether the borrower's products, services or corporate behaviours can be mapped to a positive environmental or social contribution as indicated by the UN Sustainable Development Goals. This framework also assesses whether any harmful activity to the environment or society is done through the operations of the respective borrower. Through the application of this tool, Hayfin assesses in detail the exposure of a business to climate risk and opportunities. Hayfin has dedicated resource in the Portfolio Monitoring team for the application of this framework.

For further information relating to the role and purpose of Hayfin's ESG Deal Committee, refer to the section on "Governance".

Step three - engagement with investee companies throughout the holding period

Once an investment is made, investment teams monitor the portfolio company or investment asset and maintain constructive dialogue with management, where practicable, as part of formal portfolio monitoring[16]. Hayfin has specific resources within the Private Credit team to coordinate and track engagement efforts. Education, raising awareness of potential risks, and engaging on possible ESG-related KPIs[17] are examples of engagement activities throughout the investment holding period[18]. Teams across private credit, private equity solutions, Maritime and liquid credit will, where practicable and appropriate, undertake engagement activities with select portfolio companies to identify and manage climate-related risks. Questionnaires and surveys are issued to borrowers, sponsors or issuers, where relevant to select strategies[19]. Engagement also supports the management of identified and/or existing material ESG-related risks; Hayfin has established a formal internal process for the escalation of material risks.

Engagement might also be in a collaborative format, supporting Hayfin to develop a foundation of specialist knowledge on climate and discuss strategies across different asset classes with peers. Hayfin is a member of Initiative Climat International ("iCI"), and its Private Debt Working Group. This is a network for private markets participants to discuss, formulate ideas and consider good practice regarding the integration of climate-related factors in investment processes. As a member, Hayfin has committed to participate in knowledge and experience-sharing with other members, integrate climate-related factors into investment process, and engage with borrowers and/or sponsors, where practicable to do so.

[16] Engagement with stakeholders, including company management, will be determined by the degree of control that Hayfin has, as well as asset class.
[17] ESG KPIs specifically relate to deals with formal ESG margin ratchets in private credit deals, where applicable. Where relevant and material to the underlying business, Hayfin might encourage management, and/or deal Sponsors, where appropriate, to formally measure and monitor progress against climate-related KPIs.
[18] Note, form and focus of engagement might depend on the underlying business, investment stage and/or proactive Sponsors, for instance.
[19] Hayfin has a number of questionnaires and/or surveys relevant to certain strategies in private credit, liquid credit and private equity solutions. Note, not all funds issue these questionnaires; this is part of Hayfin's evolving ESG strategy and is subject to change over time.

Practical examples of climate integration

<u>Hayfin's Climate Risk Management Framework – private credit strategies</u>[20]

Hayfin has developed a climate risk management framework for select private credit strategies. This framework supports and guides stakeholders within Hayfin to undertake a consistent and robust approach to climate-related risk assessment, where relevant[21].

Hayfin's Climate Risk Management Framework for applicable private credit strategies follows a similar process to assessments of other non-financial factors. During business selection, deals are screened in line with Hayfin's climate-related exclusions as specified in the Manager's Exclusion Policy; due diligence might also include an assessment of a borrower's exposure to (potential or actual) material climate-related risks, where information is available prior to investment. Where considered material, climate risks will be discussed with members of the ESG Deal Committee.

During portfolio monitoring, borrowers will be monitored for exposure to material climate risks identified in pre-investment. Engagement is undertaken to identify, manage and escalate climate-related concerns, where appropriate and practicable. As a lender, Hayfin's engagement strategy is focused on raising awareness, education and/or encouraging certain behaviours to support a borrower's progress to decarbonise. Where risks and/or impacts from climate change are identified following investment, a formal escalation process is undertaken.

Annually, climate-related data gathered from the borrower and/or sponsor is monitored by the ESG team and is used for regulatory reporting obligations. Hayfin's annual Borrower ESG Questionnaire is issued to borrowers to collect climate-related data including absolute emissions, hazardous waste and biodiversity impact.

<u>Maritime investments</u>

Hayfin's co-mingled Maritime strategy invests in a number of vessels. Greenheart Management[22] owns the vessels and is able to drive changes to the environmental profile of its assets, including measures to deliver environmental gains (as explained below). This differs from the strategies outlined above where Hayfin is a lender of finance.

Two 'characteristics' measured in one of the Maritime strategies include a focus on reducing material scope 1 GHG emissions and improvements in air quality[23]. Given Greenheart Management's ownership of vessels, the business is well positioned to undertake modifications which positively impact the environmental profile of vessels. After drydocking, Greenheart Management enlists the support of a Technical Manager[24] to install measures and tools appropriate to reduce a vessel's scope 1 emissions, when in operation. Retrofitting opportunities might include energy saving devices that can support performance improvements and efficient fuel consumption, for example.

<u>Liquid credit strategies</u>

[20] Applicable to certain private credit funds only.
[21] Typically, as a lender of finance, deal teams identify and monitor climate-related risks, where material. Opportunities are framed as potential mitigants to ESG risk profiles of borrowers. Hayfin's ESG Deal Committee reviews these mitigants.
[22] Hayfin's commercial vessel management corporation.
[23] Nitrous oxide only. Other air pollutants are excluded, namely nitrogen dioxide and sulphur oxide.
[24] Technical Managers are responsible for supervising maintenance activities for vessels under management.

One strategy managed by Hayfin's Liquid Credit team measures the fund's emissions intensity[25] and reports the weighted average portfolio alignment classifications in accordance with the Institutional Investors Group on Climate Change ("IIGCC") Net Zero Investment Framework ("NZIF")[26]. Hayfin uses these classifications in its "Alignment Framework", a guide which supports analysts to assess an investee company's trajectory towards decarbonising its business model. Assessments are made annually and disclosed to investors in regulatory reporting.

Private Equity Solutions

The current approach taken in Hayfin's latest fund vintage applies the following processes to navigate and critically understand material ESG, and climate-related, risks and opportunities:

- Asset-level information is gathered annually using an ESG Survey sent to all deal Sponsors;
- Sponsors are scored on various metrics, including climate-related strategy and governance metrics.

Engagement and scoring tools are used to measure, monitor and encourage positive behavioural change at the sponsor-level, where possible and appropriate[27]. The Investment Committee closely assesses deal ESG scorecards and commonly identifies material ESG topics to be addressed by the Investment team before approval.

[25] Weighted Average Carbon Intensity ("WACI") is monitored on an annual basis. WACI describes an intensity-based metric which
[26] NZIF describes requirements Managers and asset owners should use when determining investee company-level alignment status. Classifications range from "Not aligned" to "Achieving Net Zero". There are five classifications in total, all of which describe the target company's progress towards decarbonisation and achieving net zero.
[27] Note, Hayfin's Private Equity Solutions team invests in secondary investments and is a minority investor. Ownership and control therefore differ to private equity strategies which directly invest in companies.

Metrics & Targets

This section outlines Hayfin Group emissions and emissions intensity metrics. These figures do not only relate to Hayfin UK but are Group-wide emissions. All emissions are valued and calculated as at 31st December of each calendar year end; input data is collected in Q1 of the following year.

Decision-useful data is an important consideration for Hayfin. It is an integral part of its role as a responsible steward of investor capital, to provide transparent, clear, concise and useful information pertaining to funds and corporate-level initiatives, including climate-related disclosures. Hayfin is committed to developing processes which will further aid in the identification, monitoring and measurement of climate-related risks and opportunities across different business functions and geographical presence.

Hayfin undertakes the measurement of Group-wide operational GHG emissions annually, doing so since reporting year 2021. Hayfin recognises the importance of measuring its global emissions footprint to identify potential climate-related risk exposures. Senior management recognises the importance of integrating climate risks in the overall management of the business and continues to support the undertaking of emissions measurement to understand Hayfin's emissions inventory, and drivers of emissions. As the Manager continues to measure its absolute GHG emissions, a greater understanding of its potential climate risk exposures will be formed; this will enable various internal stakeholders to consider how and what type of emissions reductions should be committed to in future.

Emissions included in the table below are measured in accordance with GHG Protocol standards[28]. Emissions were gathered from Hayfin's headquarters, London, as well as other offices located globally. Scope 1 and 2 emissions, emissions generated from gas and electricity consumption respectively, were collected for a total of 18 offices for 2024 emissions. Business travel is the only scope 3 emission category measured between 2021 and 2024 and includes air and rail transportation[29].

Hayfin's total emissions have decreased from 2023 to 2024, as shown in the table below. Emissions have been separated into 'direct' and 'indirect' emissions categories; between 2021 and 2024, there has been an decrease in Scope 3 emissions derived from "Business Travel". Business travel contributes circa 66% of Hayfin's total emissions footprint in 2024, for example.

Table three – Hayfin GHG emissions (including operational and material scope 3 emissions[30])

	2021	*2022*	*2023*	*2024*
Scope 1 and 2 emissions (tCO_2e)	118	164	189	480
Scope 3 emissions (tCO_2e) – Business travel	424	341	2,373	944
Total	*542*	*505*	*2,562*	*1,424*

[28] GHG Protocol Standards
[29] Scope 3 category 6, "Business Travel".
[30] Material scope 3 emissions pertain only to Business Travel presently. Although some of Hayfin funds gather emissions directly from investee companies, these will only be provided to investors of select portfolios. Emissions gathered from these funds are not referenced in this report.

Scope 1 and 2 intensity (tCO_2e) – By FTE[31]	0.7	0.8	0.9	1.6
Scope 3 intensity (Business travel only, tCO_2e) – By FTE	2.5	1.7	10.8	3.2

Note – Table three represent value dates as at 31st December of each reporting year. GHG emissions referenced in the table above have been calculated in accordance with GHG Protocol standards. Calculations were based on directly gathered gas and electricity consumption (scopes 1 and 2, respectively) on an annual basis across Hayfin offices; some office electricity and gas usage is proxy-based, using geography and office size as inputs. Over time, Hayfin will seek to engage with office managers of these locations to gather actual consumption data. (Of scope 2 emissions, the methodology used with the external consultant included a mix of market-based emissions and location-based emissions across each year shown in the table). Hayfin collaborated with an external third party to calculate its absolute emissions and intensity metrics for the purposes of this report. With respect to scope 3, only "Business Travel" has been calculated in the table above – all other scope 3 emission categories have been excluded.

Key drivers

- Change in service provider and data input

There has been a 2.5 times increase in Scope 1 and 2 absolute emissions between 2023 and 2024. While the methodology remained the same from one year to the next (in line with GHG Protocol standards), there was a change in service provider carrying out the data aggregation and calculation exercise. 68% of Scope 1 & 2 greenhouse gas emissions across all 18 offices included in the exercise are from Scope 1 refrigerants. However, refrigerant emissions for all but one office were estimated and therefore likely to be an overestimation. This was a driver in 2024 Scope 1 and 2 emissions being higher than 2023.

Similarly, there was a material drop in Scope 3 business travel emissions. This was driven by more accurate data being available to track business travel by distance with no emissions for 2024 being calculated using spend, which can overestimate emissions considerably. Further to this, less long-haul flights or more short-haul flights were taken in general. More journeys were made with train instead of flying the same journey.

In coming years, as we become more accustomed to measuring our carbon footprint, we aim to improve the data input into the calculations by more frequently collecting data throughout the year from a wider range of offices to gain better insights into energy consumption and reduce reliance on estimations.

- Change of Office

Hayfin London headquarters changed location over the reporting period to a building which is larger but more energy efficient. We expect to see this improve our carbon footprint measurement in years to come.

Metric limitations

It is important to consider the limitations of climate metrics. As described in the note below the table, some emissions gathered are proxy-based results owing to challenges in collecting electricity and gas consumption from a number of Hayfin's shared office locations. Where proxies have been used, inputs

[31] Full Time Equivalent ("FTE"). This figure does not include contractors.

based on geographical location, office size and market- or location-based[32] assumptions have been incorporated.

Emissions intensity metrics can be misleading if limitations are not explained. Although a useful metric for Hayfin to measure over time across its offices, the emissions intensity metric by Full Time Equivalent can be skewed by increasing numbers of employees as the Manager continues to grow. Resultant data, for example, might show declining emissions per capita where the rise in employee numbers leads to a larger impact on the metric than increasing emissions (the numerator). Overall, this particular intensity-based metric is less directly linked to company activities, those generating emissions, given its focus on human capital. Other, more decision-useful intensity metrics might be used in future, where deemed appropriate and relevant.

Targets

Hayfin has not established formal net zero or climate-related targets across either the Manager, Group or strategy levels. Whilst the business recognises climate change risk to be potentially financially material, Hayfin has decided to prioritise measuring its emissions before setting decarbonisation targets and adopting a formal transition plan. In the near-term, it is anticipated Hayfin will reconsider the appropriateness of establishing formal targets.

Furthermore, firmwide decarbonisation targets (and complementary transition plan) have not been adopted given Hayfin's headquarters in London relocated in October 2024. Once the Manager has established consistent emissions measurement in its new office space, Hayfin will be able to consider appropriate actions needed to reduce emissions generated by its direct operations. With respect to fund-level decarbonisation targets, Hayfin continues to engage with industry peers and networks, exploring good practice approaches for the relevant asset classes. Hayfin's membership in iCI is an example of how the Manager seeks to better its understanding of how its peers are navigating the challenges of decarbonising portfolio companies where the investment manager has limited control.

Hayfin will review the appropriateness of Manager-level and Portfolio-level decarbonisation targets annually. Annual reviews will also consider the formal establishment of future transition plans for the Manager.

[32] Scope two emissions can be reported in two ways, location- or market-based. Location-based scope 2 emissions represents an average electricity consumption for a select geographic location. In contrast, market-based emissions are proxies of the target company's purchasing of electricity from either renewable or non-renewable sources. Dependent on the approach selected to represent scope 2 emissions, the overall emissions might be impacted. Commonly, location-based emissions measurements are more conservative than market-based approaches given emissions are an average of the location's (country or region) electricity mix. Market-based methodologies might skew emissions given this approach typically overestimates the amount of emissions generated from renewable sources.

Glossary

- **Net Zero emissions** – net zero is a strategy which balances the amount of GHGs that are produced against the level of emissions that are removed from the atmosphere.
- **Transition risks**[33] – Transition risks arise from shifts in the global economy essential to reaching net zero by 2050. Companies might be impacted by one or more of the following transition risk factors - changes in national or global policy and regulation, technological shifts, adjusting consumer and market demand, and reputational damage.
- **Physical risks** – Physical risks can arise from acute, short-term extreme weather events, including severe droughts, storms and flooding, or long-term shifts in climatic patterns, namely rising sea levels, shifts in rainfall patterns and rising average temperatures in certain geographic locations. Both acute and chronic physical risks can have a detrimental impact on the valuation of a company or portfolio's assets.

33 Definitions in accordance with those included in TCFD guidance, TCFD climate risk definitions

Disclaimer

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