SHENKMAN

# Environmental, Social, and Governance Policy

***Effective as of October 31, 2024***

Shenkman's long standing investment philosophy integrates Environmental, Social and Governance ("ESG") factors into the overall credit research process. This ESG Policy is designed to ensure that Shenkman's investment process considers whether ESG factors are relevant to an investment and whether they could have a financial impact. In addition, this policy covers our approach to engagement and socially responsible investing ("SRI")

## DEFINING ESG

ESG considerations are often broadly applied by market participants and terminology may include integration of ESG factors, responsible and sustainable investing, sustainability, exclusionary screening (i.e., SRI screening), corporate engagement, stewardship, and impact investing (targeting investments to solve social or environmental problems). Our ESG policy lays out how we integrate ESG considerations and engagement throughout our investment process as well as how we apply SRI screens where appropriate. Some examples of E, S, and G factors are provided below:

| | |
|---|---|
| **Environmental (E)** | Biodiversity loss, greenhouse gas (GHG) emissions, climate change impacts, renewable energy, energy efficiency, resource depletion, chemical pollution, waste management, depletion of fresh water, ocean acidification, stratospheric ozone depletion, changes in land use and nitrogen & phosphorus cycles. |
| **Social (S)** | Activities in conflict zones, distribution of fair trade products, health and access to medicine, workplace health safety and quality, HIV/AIDS, labor standards in the supply chain, child labor, slavery, relations with local communities, non-discriminatory practices, human capital management, employee relations, diversity, controversial weapons and freedom of association. |
| **Corporate Governance (G)** | Executive benefits and compensation, bribery and corruption, shareholder rights, business ethics, board diversity, board structure, independent directors, risk management, whistle-blowing schemes, stakeholder dialogue, lobbying and disclosure. This category may also include business strategy issues, both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented. |

## PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

Shenkman signed the PRI in 2017 and is fully committed to the PRI-developed six investment principles:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

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## ESG PHILOSOPHY & CORE PRINCIPLES

We view ESG analysis as a critical investment tool, contributing to the research and management of leveraged finance investments. Our deep and talented team integrates ESG considerations throughout the investment selection, portfolio construction, and risk management process with rigor and discipline. In addition to this embedded approach, we seek to tailor our capabilities to clients' investment objectives and develop highly customized ESG and SRI solutions.

<u>Shenkman's ESG philosophy for our traditional strategies is</u>:

- ESG factors are considered when making investment decisions.
- ESG issues can have a direct impact on profitability, cash flow and an issuer's ability to pay back debt in a timely manner and, therefore, are a critical part of investment analysis.
- ESG factors are not "stand-alone" but are integrated into Shenkman's disciplined and structured investment process.
- The ability to constructively engage with management teams and equity sponsors is embedded in Shenkman's investment philosophy.

<u>Shenkman's core ESG principles for our traditional strategies are</u>:

1. **<u>Integrate</u>** ESG factors into Shenkman's disciplined and structured investment process.
2. **<u>Systematically</u>** approach our ESG analysis.
3. **<u>Identify</u>** and utilize SRI factors.
4. **<u>Engage</u>** with managements to better understand ESG factors within their company and create a dialog on ESG issues.
5. **<u>Climate</u>**-related factors are integrated into the research process.
6. **<u>Report</u>** ESG efforts on a periodic basis.
7. **<u>Continually review</u>** ESG factors and integration process.

## ESG POLICY GOVERNANCE AND IMPLEMENTATION

Consistent with Shenkman's commitment to ESG investing, it has established an ESG Committee, as a subcommittee of the Risk Committee. It is the role of the firm's ESG Committee to oversee and set the firm's ESG policy. The ESG Committee is comprised of team members from different departments, including Business Development, Portfolio Management, Analytics & Risk and Legal & Compliance. The ESG Committee's mission is to support the firm's ongoing commitment to ESG matters and to assist the firm in fulfilling its responsibilities by providing oversight and support of the firm's sustainability and ESG programs, goals and initiatives. While the ESG Committee does not assume day-to day investment related functions, the ESG Committee meets generally quarterly or more frequently as needed to discuss ESG Policy, ESG & SRI execution, training, upcoming trends and investor feedback among many topics. The ESG Committee regularly reports to the Risk Committee and provides a report to the Shenkman Board of Directors on ESG related matters semi-annually. The Director of ESG chairs the ESG Committee and, together with our Portfolio Manager and Global Strategist, spearheads our overall ESG efforts. Additionally, the ESG Committee is responsible for changes to, and approval of, this ESG Policy.

It is the responsibility of Shenkman's credit analysts, under the Director of Research, to identify and monitor ESG factors that may be impactful to a potential or existing investment. As part of our structured research process for our traditional strategies, issues related to ESG are generally addressed in our meetings with management teams and discussed in Credit Committee meetings, as well as ad hoc meetings with the portfolio managers.

This policy covers the firmwide philosophy and investment practices for our traditional strategies across bonds, convertibles, and loans. ESG principles are also incorporated when evaluating CLO originators for our structured credit strategy.

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## SHENKMAN PRINCIPLE 1: ESG INTEGRATION

Shenkman's long standing investment philosophy integrates ESG factors into the overall credit research process. As part of our investment process, Shenkman seeks to consider all meaningful risks or opportunities that may have an impact on a company's prospects, operating performance, or valuation. We believe that our policy of integrating ESG factors into our credit research process enhances our clients' long-term investment success. If we believe a risk factor exists that may affect the investment thesis of a particular company, it may be excluded from our Approved List (i.e., it would not be available for consideration of an investment in Shenkman's traditional strategies).

ESG is incorporated into Shenkman's credit research process for its traditional strategies in the following ways:

- Analysts must speak to and evaluate the quality of management before any investment. Shenkman's proprietary 25 question management checklist is designed to evaluate governance and management integrity.
- Shenkman's proprietary risk assessment checklist seeks to quantify both quantitative and qualitative risk factors.
- Key risk factors quantified by Shenkman's analysts are often important ESG variables to consider.
- Shenkman's proprietary financial models can quantify the impact of many ESG factors.
- Shenkman's proprietary C.Scope® Score assesses risk factors that impact credit quality.

Shenkman's ESG checklist pulls together all the factors listed above.

## SHENKMAN PRINCIPLE 2: SYSTEMATICALLY APPROACH

Our proprietary ESG Checklist incorporates and measures factors we have long considered. This checklist highlights any particular ESG issues around a company and allows us to address them in a proactive and meaningful way. Amongst other factors, these checklist items were informed by the UN Global Compact. Specific topics that are addressed include:

- Environmental: Pollution & Waste
- Environmental: Liabilities/Violations
- Environmental: Impact from climate change
- Social: Employees
- Social: Human Rights
- Social: Stakeholders (Customers/Community)
- Governance: Transparency
- Governance: Management integrity
- Governance: Strategic/Financial policy
- Governance: Board composition/Corporate Structure

Our ESG matrix offers more details around these topics and how the checklist should be completed. As the risks from environmental, social, and governance factors vary greatly from one another, we utilize a separate section for each category, as well as an overall ESG ranking. Based on the results of this checklist, each company is placed in one of four ESG tiers. If a company's ESG ranking places them in the lower two tiers, the credit will require further review and approval from a member of the Risk Committee. The ESG tiers are stored in our internal database and can be used to inform portfolio management decisions. Reports show an individual portfolio's exposures to ESG tiers as well as differences in spreads or yields for exposures to any one category.

ESG checklists will be completed for new investments going to our Credit Committee and, to the extent they remain on the Approved List, we will seek to update them annually but no later than every 2 years.

**SHENKMAN PRINCIPLE 3: SOCIALLY RESPONSIBLE INVESTMENT (SRI) SCREENING**

Shenkman specializes in developing customized solutions for investors and we have a long history of including SRI factors at a client's request. These factors are not universally applied in our process, as they are geared toward the specific goals of an individual client. Client-determined restrictions are managed through one of three processes: (1) maintaining a restricted list of securities, which is provided to us from the client; (2) utilizing Shenkman's internally developed SRI screens; and (3) restricting investments of any type in certain pre-determined industries.

Shenkman has developed proprietary screens on 17 common SRI factors at different tolerance levels. These 17 SRI factors are: 1) Abortion/Abortion Related, 2) Alcohol, 3) Biological & Chemical Weapons, 4) Civilian Firearms, 5) Coal & Consumable Fuels, 6) Defense, 7) Gambling, 8) Human Cloning, 9) Landmines & Cluster Munitions, 10) Nuclear Weapons, 11) Oil & Gas, 12) Pornography/Adult Entertainment, 13) Predatory Lending, 14) Private Prisons & Detention Centers, 15) Prostitution, 16) Sudanese Government, and 17) Tobacco.

Our custom SRI screens can also be used to monitor portfolio risks as internal reports show an individual portfolio's exposure to SRI factors as well as differences in spreads or yields for any one category.

**SHENKMAN PRINCIPLE 4: ENGAGEMENT**

A key element of Shenkman's investment process is engagement with company management, underwriters, sponsors/owners, as well as clients. Communication with company management allows us to better understand the company including its strategy, capital structure, and financing needs. Ongoing dialogue with managers is a hallmark of Shenkman's investment process.

Amongst others, Shenkman's goals in management engagements are to:

- Assess the quality of corporate strategy, as well as the quality, track record and ethics of the management team.
- Identify potential enterprise-level risks to the company, including ESG-related risks or otherwise.
- When appropriate, understand management's approach to addressing specific ESG or SRI factors.
- Understand management's commitments to bondholders (e.g., pay down debt, avoid dividends, potential for acquisitions, etc.).
- Encourage management teams to improve disclosure, hold conference calls and keep investors well informed.
- Encourage the continuation of protection of bondholder rights and covenants. Covenants should be consistent with the stated strategy.
- Failure to live up to commitments could lead to inclusion of the company on Shenkman's "Hall of Shame."

**HALL OF SHAME**

Debt investors are often perceived to lack a role in governance, as lenders do not control the board of directors and have neither voting rights nor a say in executive compensation. However, this is an incomplete story. Lenders provide crucial sources of capital and thoughtful management teams understand that having continued access to this capital at attractive rates is very important. At Shenkman, we have always valued long-term partnerships with management teams. Management transparency, integrity, protection of debtor rights and covenants are important factors for a successful investment. To further these goals, and most importantly to influence change, Shenkman created a Hall of Shame, which consists of companies that have failed to meet these standards. A vital element of our ESG engagement is to inform the management team that they have been added to our Hall of Shame. We will provide them with the reasons for their addition, as well as action items that can be taken to be removed. This aspect will form the basis of future engagement with the company. The Hall of Shame plaque is displayed in our New York and London offices to be seen by all sponsors, bankers and managers that visit our offices.

### SHENKMAN PRINCIPLE 5: CLIMATE POLICY

As part of our integrated approach, Shenkman considers all risks that could impact the credit quality of an investment. Specifically, climate-related issues can reveal long-term risks and opportunities that are critical to understanding a company's future profitability and valuation. Environmental factors can present financial risks in the form of material on or off-balance sheet liabilities, capital expenditures or costs to comply with regulations. Furthermore, a company that has high emissions of carbon might face higher future regulatory costs. These factors are incorporated into our fundamental analysis and highlighted on our ESG Checklist. Additionally, we also highlight a company's climate change vulnerability – or the impact of climate change, extreme weather events or water scarcity on assets and operations. At a client's request, for a separately managed portfolio, Shenkman can restrict investments on climate related issues. As is our practice, Shenkman supports efforts and encourages companies to improve and enhance disclosure on climate-related risks.

The firm has signed on to the CDP (formerly known as the Carbon Disclosure Project). The non-profit organization works to foster and collect environmental disclosures from companies. This development shows Shenkman's commitment to encouraging clear and consistent disclosures from companies and incorporating ESG factors into the investment process.

As part of our ESG governance and oversight process, climate-related risks and opportunities are discussed in ESG Committee meetings from time to time

### SHENKMAN PRINCIPLE 6: REPORTING

We periodically publish an ESG newsletter highlighting how Environmental, Social and Governance factors are being used in our investment decisions. The ESG newsletter provides a forum to communicate with our broad global client base and comment on developments we are observing in socially responsible investing in the credit markets and the level of ESG engagement at Shenkman in particular. Our ESG newsletter can be found on our website: https://www.shenkmancapital.com/responsible_investing

Additionally, the research team regularly submits notable events, issues and examples on ESG topics to an internal database that is shared internally.

### SHENKMAN PRINCIPLE 7: CONTINUOUS REVIEW

Shenkman is committed to being a thought leader in the ESG space and to continually evolve and develop its ESG policy and procedures. Shenkman's Director of ESG, portfolio managers and other senior leaders participate in industry events, maintain ongoing dialogue with clients, educate team members and continue to evaluate the best practices for responsible investing.

### CORPORATE RESPONSIBILITY

Shenkman Capital is committed to diversity in the workplace and recognizes that individuals of all backgrounds, experiences, and beliefs foster creative thought and offer varying perspectives. Shenkman is an equal opportunity employer and does not discriminate against any team member or applicant for employment based on race, color, religion, national origin, age, gender, sex, creed, handicap, disability, sexual orientation, citizenship status, marital status, veteran status, or any other characteristic protected by applicable law. Additionally, to promote equal pay best practices, the firm does not solicit prior compensation information from any candidates.

The firm has also worked internally to develop its retention efforts by creating a Diversity, Equity, and Inclusion Committee. This committee gives a voice to our population and provides a forum to consider, within the diversity and inclusion context, the firm's culture, existing policies, recruitment, retention, promotion, as well as our external relationships, and presents ways in which the firm can better address these initiatives across the organization. The Committee has helped launch a new Employee Resource Group, the Shenkman Women's Network, whose mission is to create a forum in which the firm can support its female employees, create meaningful connections, and foster personal and professional growth. The Women's Network is dedicated to the growth of all of our members and envision a network of collaboration where all women are encouraged to share their ideas and talents. The Committee has also created the Corporate Philanthropy matching program.

In 2022, Shenkman moved its NYC offices to a LEED certified building. Built in 1999, 151 W. 42$^{nd}$ Street was recognized at the nation's first "green skyscraper". The building is LEED Gold certified under LEED v4 Existing Buildings: Operations and Maintenance, uses green cleaning products, equipment and strategies to promote a healthier work environment, and incorporates green roofs and a tenant recycling program and organics collection program for compositing. More information about 151 W. 42$^{nd}$ Street can be found at https://www.durst.org/properties/One-Five-One.

Please refer to our website at https://www.shenkmancapital.com/responsible_investing for more information and any of our ESG publications.